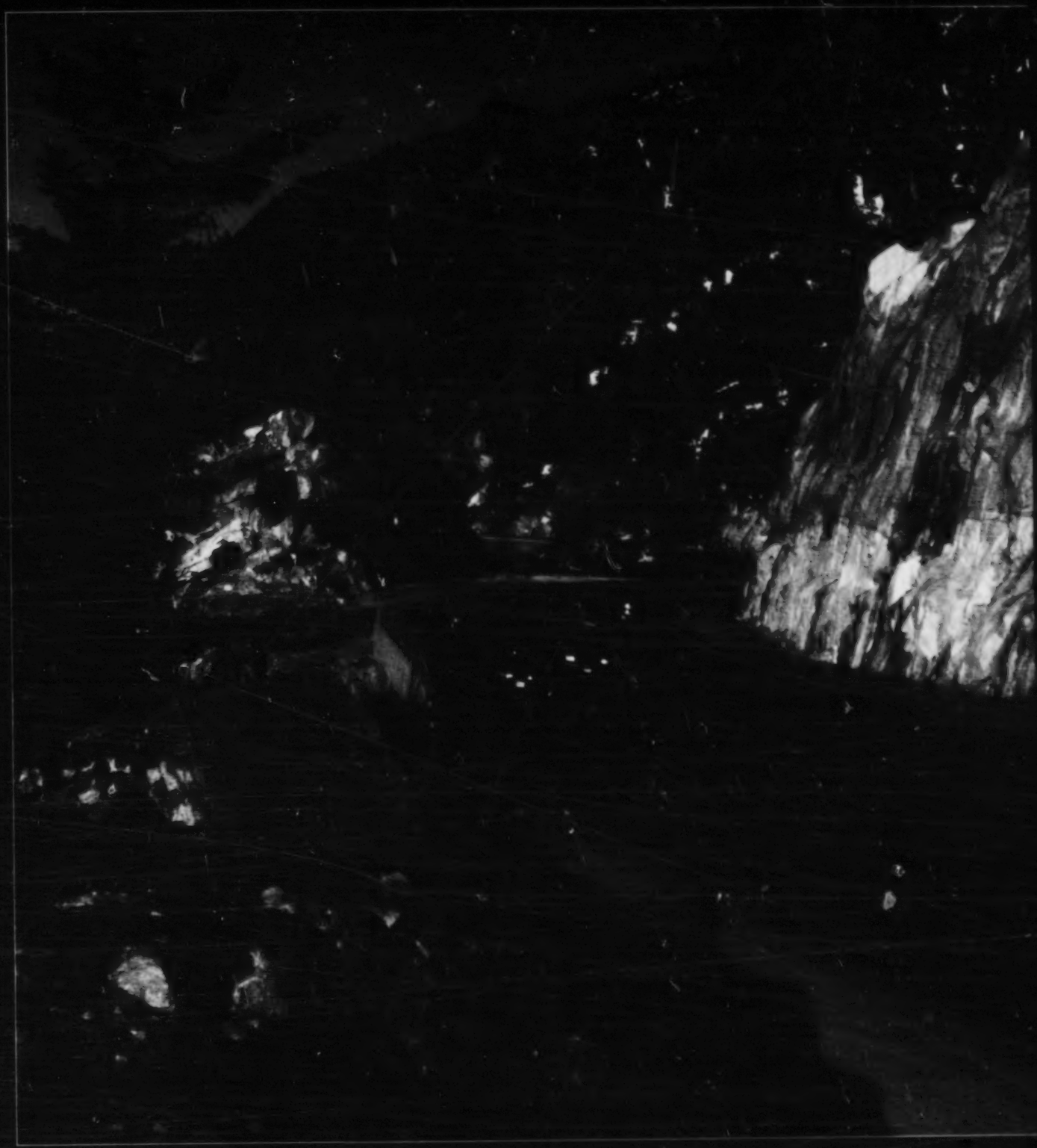
Annual Report 2006



ICBC Insurance Corporation of British Columbia

## Profile

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation that provides universal compulsory automobile insurance (Basic insurance) to motorists in British Columbia, the rates for which are regulated by the British Columbia Utilities Commission; and sells Optional automobile insurance products in a competitive marketplace.

ICBC is one of Canada's largest property and casualty insurers, offering automobile insurance products and claims handling services at locations throughout the province. In addition, ICBC provides driver licensing services and vehicle licensing and registration services on behalf of the provincial government at locations across BC. ICBC also invests in loss management programs to reduce crashes, automobile crime and fraud.

As a provincial Crown corporation, ICBC is governed by legislation that is applicable to Crown corporations. ICBC operates under the authority of the *Insurance Corporation Act* and through the Shareholder's Letter of Expectations established between ICBC and the Minister responsible. The Minister of Public Safety and Solicitor General is the Minister responsible for ICBC.

## Vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

## Mission

ICBC delivers quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

## Values

In providing valued products and services, ICBC is guided by the following corporate values:

**Integrity:** We value people by treating others with respect and dignity. We are honest by representing our intentions and ourselves truthfully. We will be accountable for our performance and ensure decisions made are supportable.

**Commitment:** We demonstrate commitment as employees by doing our best work at all times. ICBC demonstrates commitment to employees by creating a work environment that supports employees in making their best contribution for the benefit of the customer. We are committed to operating in a cost-effective manner and will continue to seek ways to improve efficiency.

**Dedication to the Customer:** We measure our success by our customers' belief that ICBC products and services provide good value for their money. We provide excellent customer service by approaching every customer interaction as an opportunity to create a positive customer experience.

2007-03921/

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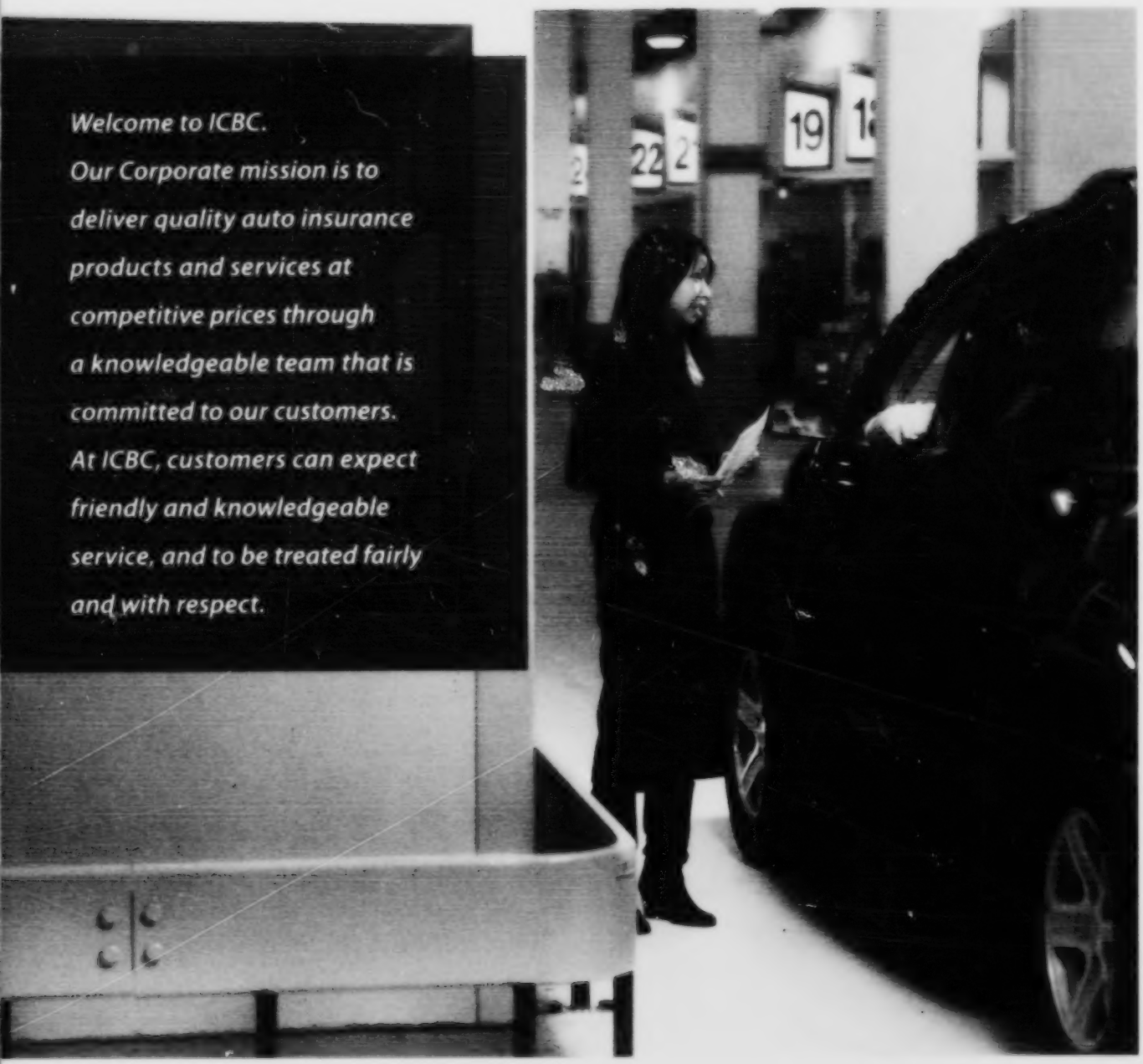
*Welcome to ICBC.*
*Our Corporate mission is to deliver quality auto insurance products and services at competitive prices through a knowledgeable team that is committed to our customers.*
*At ICBC, customers can expect friendly and knowledgeable service, and to be treated fairly and with respect.*



# Letter of Transmittal and Accountability Statement

Honourable John Les
Minister of Public Safety and Solicitor General
Minister Responsible for the Insurance Corporation of British Columbia

Dear Minister:

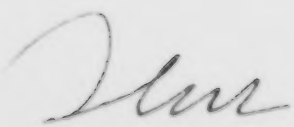
The 2006 Annual Report of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The information presented reflects the actual performance of ICBC for the year ended December 31, 2006. All significant decisions, events and identified risks as of December 31, 2006 have been considered in preparing the report.

ICBC's 2006 Annual Report was prepared in accordance with the BC Reporting Principles. The information presented in the report represents a comprehensive picture of ICBC's actual results in relation to the mission, goals and objectives outlined in ICBC's 2006 – 2008 Service Plan, including information on performance and outcomes in 2006, key developments, significant issues, risks and uncertainties, and summary information on ICBC's future outlook.

As the Chair of ICBC's Board of Directors, I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported, as well as for the design and operation of internal controls to ensure performance information is measured accurately and in a timely fashion. This report contains estimates and interpretive information that represent the best judgement of management. Any significant limitations in the reliability of the data are identified.

On behalf of the Board of Directors and all ICBC employees, it is my privilege to submit the Annual Report of the Insurance Corporation of British Columbia for the year ended December 31, 2006.

Sincerely,



T. Richard Turner
Chair, Board of Directors

# Key Financial and Operating Comparatives

## FIVE YEAR COMPARISON
## FOR THE YEARS ENDED DECEMBER 31

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **For the year:** | | | | | |
| Premiums earned ($000) | 3,256,856 | 3,117,412 | 3,026,481 | 2,852,411 | 2,621,383 |
| Service fees ($000) | 47,154 | 37,479 | 36,633 | 33,585 | 27,201 |
| Claims incurred during the year ($000)[1] | 2,544,396 | 2,444,515 | 2,242,334 | 2,208,140 | 2,193,492 |
| Prior years' claims adjustments ($000)[1,2] | 99,043 | 80,662 | (4,740) | 10,392 | (24,791) |
| Claims services and operating costs ($000) | 433,830 | 423,803 | 419,350 | 409,272 | 397,901 |
| Insurance premium taxes and commissions ($000) | 379,682 | 363,872 | 343,793 | 307,265 | 280,778 |
| Deferred premium acquisition cost adjustments ($000)[2] | (87,511) | 114,604 | (20,609) | (32,426) | (31,000) |
| Investment income ($000) | 512,349 | 579,436 | 395,319 | 329,936 | 327,269 |
| Net income for the year ($000) | 350,100 | 197,924 | 372,959 | 224,807 | 44,968 |
| **At year end:** | | | | | |
| Cash and investments ($000) | 7,687,979 | 7,167,078 | 7,055,237 | 6,436,189 | 5,857,937 |
| Total assets ($000) | 8,955,887 | 8,086,249 | 7,461,955 | 6,806,029 | 6,166,390 |
| Retained earnings ($000) | 1,507,248 | 1,157,148 | 959,224 | 586,265 | 314,190 |
| Autoplan policies earned[3] | 2,990,000 | 2,896,000 | 2,818,000 | 2,750,000 | 2,705,000 |
| Average premium ($)[4] | 1,062 | 1,047 | 1,048 | 1,009 | 960 |
| Claims reported during the year[5] | 947,000 | 924,000 | 929,000 | 931,000 | 1,072,000 |
| Loss Ratio: | | | | | |
| - Current year (%) | 87.4 | 87.6 | 83.4 | 87.0 | 94.0 |
| - Prior years' claims adjustments (%)[2] | 3.0 | 2.6 | (0.2) | 0.4 | (0.9) |
| Loss ratio (%)[6] | 90.4 | 90.2 | 83.2 | 87.4 | 93.1 |
| Insurance expense ratio (%)[7] | 15.7 | 16.0 | 15.9 | 15.5 | 15.5 |
| Number of employees[8] | 4,994 | 4,908 | 4,889 | 4,754 | 5,100 |

1. Claims incurred is presented on a discounted basis beginning in 2004. 2003 and 2002 are presented on an undiscounted basis.
2. ( ) denotes a favourable adjustment, i.e. a reduction in expense.
3. Annualized values have been used for policies with a term of less than 12 months.
4. Average premium earned per policy.
5. Claims reported represents the number of claims reported in the year against purchased insurance coverages for all years.
6. Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.
7. Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs, deferred premium acquisition costs, and one-time non-recurring items).
8. Number of employees is based on year-end full time equivalents.

*Certain comparative figures have been restated to conform to the current year's presentation.*

# Performance Highlights

## Net Income

In 2006, ICBC recorded net income of $350 million. Net income stays in the Corporation to help keep insurance rates low and stable over the long term and helps protect policyholders against significant unexpected losses.

## Operating Costs

ICBC continues to focus on prudent fiscal management. In 2006, operating costs were slightly lower than in 2005, primarily reflecting reduced non-insurance costs, and continue to remain approximately 20% lower than in 2000.

## Combined Ratio

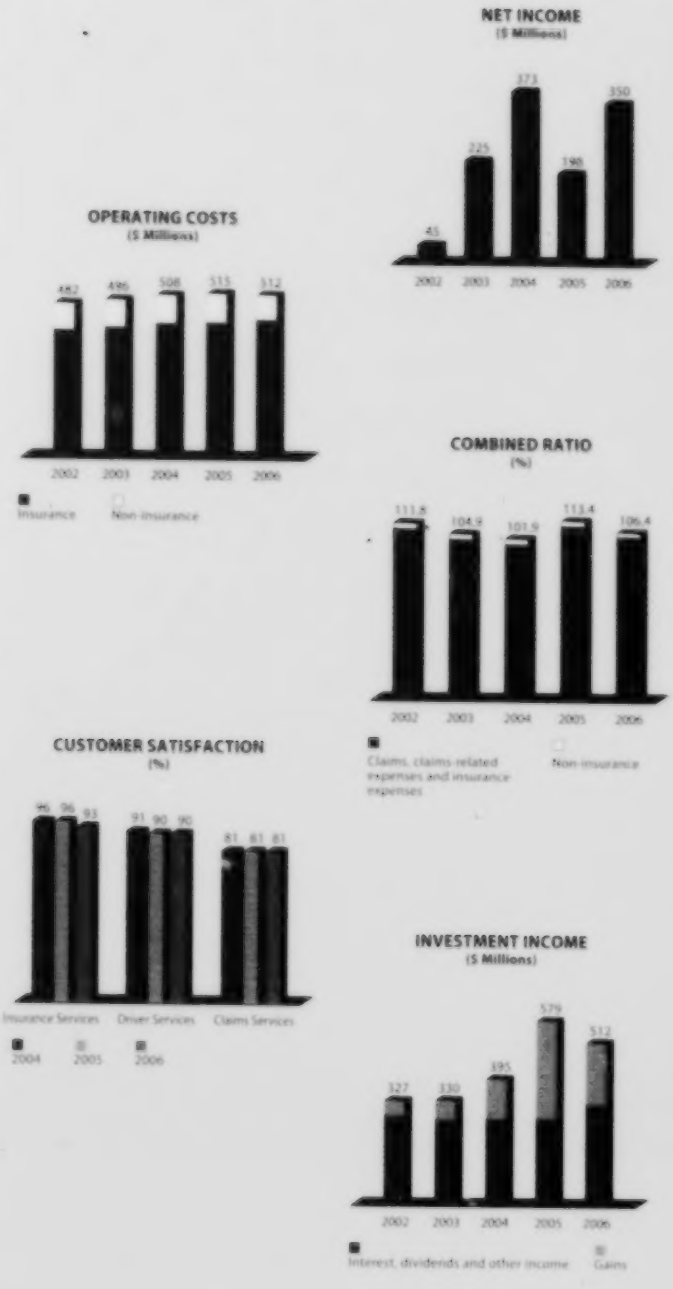
The combined ratio is a key measure of profitability and, for ICBC, includes both an insurance and a non-insurance component. Although claims costs increased in 2006, increased premium revenue helped improve ICBC's combined ratio in 2006.

## Customer Satisfaction

In 2006, customer satisfaction levels for insurance services declined slightly, while driver services and claims services customer satisfaction levels remained the same as in 2005.

## Investment Income

ICBC's investments generated income of $512 million in 2006. Income from investments helps to reduce the amount of premiums that would otherwise have to be paid by policyholders.



*2006 was a successful year for ICBC, with achievements including sound financial performance, development of strategies to address rising injury claims costs, settlement of a long-term collective agreement, and updating ICBC's corporate strategy based on ICBC's vision of being BC's preferred auto insurer, providing protection and peace of mind.*

# Message from the Chair and the President and CEO

2006 has been a busy year for ICBC in many areas, including preparations for the full implementation of the new legislative and regulatory auto insurance framework established by the provincial government, further analysis and work to address rising injury claims costs, continued focus on effectively managing operating costs, settlement of a long-term collective bargaining agreement, and reviewing and updating ICBC's corporate vision, mission, goals, objectives and strategies.

Over the past several years, ICBC has achieved success in many areas, including restoring financial strength, adapting to changes in the legislative and regulatory environment, being more performance-oriented, and improving our customer focus while maintaining and improving operating efficiency.

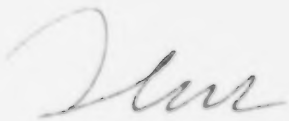
Building on ICBC's achievements to date and to address changes in its operating environment, ICBC reviewed and updated its vision, mission, and corporate strategy in 2006. The updated strategy strengthens the focus on customers; simplifies the goals and objectives; increases alignment of plans, measures and activities; integrates the principle of operating competitively throughout all aspects of the strategy; and enhances the focus on operational excellence. It is consistent with the direction outlined in the recently renewed Shareholder's Letter of Expectations between the provincial government and ICBC, and provides the foundation of ICBC's performance environment. Having clear strategic direction helps the company set priorities, making certain that efforts across the company are aligned and focused.

On the financial front, continued strong investment income, increased premium revenue and prudent management of operating costs helped to offset increasing claims costs and, combined with a favourable adjustment to deferred premium acquisition costs associated with the turnaround in the Basic insurance business that was partially driven by higher 2006 rates, resulted in net income of $350 million for 2006. However, increasing injury claims costs remain a concern and, in 2006, ICBC's total claims costs increased by more than $118 million over 2005, including a $91 million increase in injury claims costs. The majority of injury claims costs are borne by Basic insurance and, as a result, ICBC recommended a 3.3% increase in Basic insurance premiums in its 2007 rate application to the British Columbia Utilities Commission (BCUC).

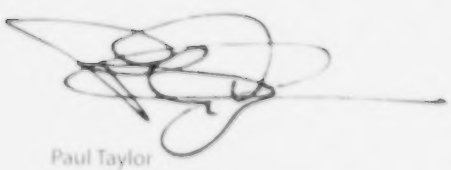
A key focus in addressing increasing injury claims costs is reducing the number of crashes and the severity of the crashes that take place. High-risk drivers are a serious concern as they cause a disproportionate number of crashes and account for some of the most severe injuries. In early 2007, ICBC filed its first rate design application with the BCUC. This application proposes rate design changes for Basic insurance that emphasize making rates more reflective of the risk each driver represents. ICBC is also working with the provincial government on a number of initiatives to help reduce the risks on BC roads and mitigate increasing claims cost trends.

ICBC is also working on further improvements to products and services to meet the needs of our customers. The 3.8% reduction to overall Optional insurance rates announced in early 2007 is an example of these changes, rebalancing prices to reflect risks and providing competitive rates for ICBC's better-risk customers.

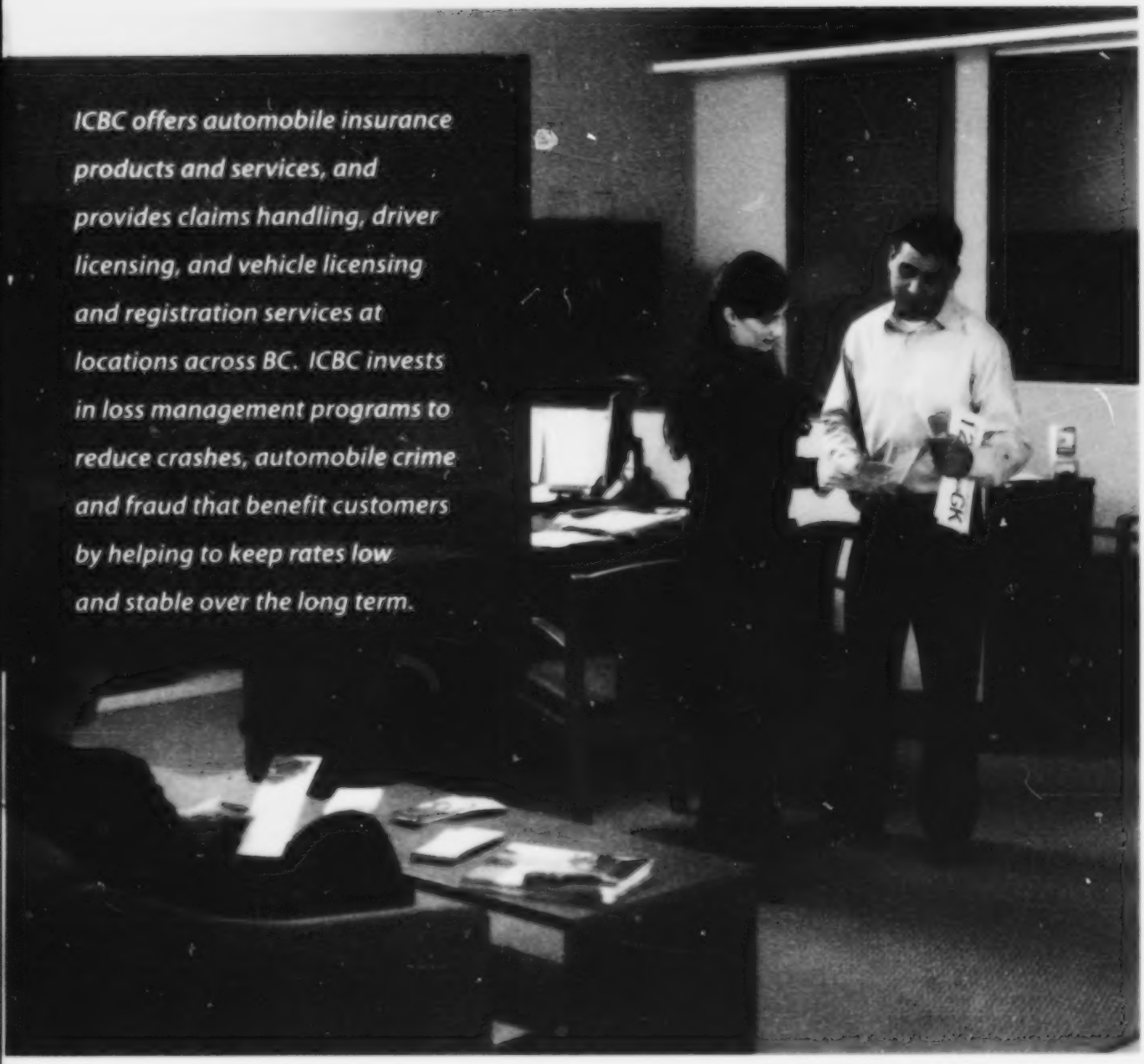
Looking ahead, ICBC's vision to be "BC's preferred auto insurer, providing protection and peace of mind" will guide us in achieving our goals with high-performing, engaged and capable employees focused on meeting customers' needs, financial responsibility and operational excellence.



T. Richard Turner
Chair, Board of Directors



Paul Taylor
President and CEO



*ICBC offers automobile insurance products and services, and provides claims handling, driver licensing, and vehicle licensing and registration services at locations across BC. ICBC invests in loss management programs to reduce crashes, automobile crime and fraud that benefit customers by helping to keep rates low and stable over the long term.*

# Corporate Overview

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation established in 1973 under the *Insurance Corporation Act* to provide universal (compulsory) automobile insurance to BC motorists. At the time it was established, ICBC was the sole provider of automobile insurance in British Columbia. Soon afterwards, legislation was amended to allow private insurance companies to compete in the sale of Optional automobile insurance products. Today, ICBC is the sole provider of Basic automobile insurance, which is compulsory and for which the rates have been regulated by the British Columbia Utilities Commission (BCUC) since 2003, and competes with other companies in the sale of Optional automobile insurance products. In providing these insurance products, ICBC operates as an integrated company, which benefits customers in terms of convenience and reduced costs.

ICBC is one of BC's largest corporations and one of Canada's largest property and casualty (P&C) insurers. The primary function of insurance is to spread risk, and premiums are designed to reflect the risk of loss. ICBC earns approximately $3.3 billion in insurance premiums from almost 3.2 million policies sold annually, and currently holds approximately $9.0 billion in assets, the majority of which comprise its investment portfolio. ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums and retained earnings. Income from ICBC's investments helps reduce the insurance premiums paid by BC motorists.

ICBC offers insurance products and services through a province-wide network of more than 900 independent brokers, government agents, and appointed agents. ICBC also provides services to those involved in crashes and victims of auto crime, and processes almost 950,000 claims per year through its 24-hour telephone claims handling facility, province-wide network of 39 claims service locations, and corporate website, www.icbc.com.

As part of its mandate, ICBC also provides driver licensing services, vehicle licensing and registration services, and fines collection on behalf of the provincial government; these services are collectively known as ICBC's non-insurance services. Responsibility for commercial vehicle compliance was transferred back to the provincial government from ICBC in 2003 and, for the three-year period ending March 31, 2006, ICBC provided transitional funding to the Province for commercial vehicle compliance operations.

In delivering its various products and services, ICBC partners with businesses and organizations in communities throughout BC, including law enforcement agencies, members of the automobile repair industry, health service providers, defence lawyers, and public and community organizations. These partners are involved in different aspects of the insurance and claims processes, such as loss management programs, repair or replacement of damaged vehicles, medical and rehabilitation services, and legal services.

# Insurance Products and Services

## Insurance and Claims

Similar to other vehicle owners across Canada, motorists in BC are required by law to purchase a Basic package of automobile insurance. In BC, this Basic insurance is provided solely by ICBC. Private passenger and commercial vehicle owners are provided with $200,000 in third-party legal liability protection, $150,000 in no-fault accident benefits, and $1 million of underinsured motorist protection; buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory levels. In addition to providing Basic auto insurance, ICBC competes with other automobile insurance companies in the sale of extended third-party legal liability, collision, comprehensive, vehicle storage, and other Optional auto insurance coverages. The table below illustrates the full spectrum of ICBC's Basic and Optional insurance products.

The automobile insurance product in BC is based on a full tort system, which means that an injured party is entitled to take the at-fault party to court for the full amount of his or her damages, up to policy limits. In addition, the insured injured party has access to accident benefits, including medical and rehabilitation expenses and up to $300 per week for wage loss, through his or her Basic insurance from ICBC. Systems in other provinces in Canada are based on some variant of no-fault or mixed no-fault and tort systems, which means that compensation can be based on predetermined benefit schedules regardless of who is at fault, there may be thresholds and/or caps or deductibles on pain and suffering awards, and there may be little or no ability to sue for further damages. These differences make inter-provincial comparisons difficult since the related products, services and cost structures of each system are unique.

## ICBC's Basic and Optional Insurance Products

### Basic Coverage

The minimum amount of insurance any vehicle must carry to legally operate in BC:

- Third-Party Legal Liability
- Accident Benefits
- Underinsured Motorist Protection
- Protection Against Hit-and-Run* and Uninsured Motorists
- Inverse Liability Coverage

### Optional Coverage

Additional coverage to meet customer needs:

***Vehicle***

- Collision
- Comprehensive
- Specified Perils
- Vehicle in Storage
- Limited Depreciation Coverage
- Replacement Cost Coverage
- Collector and Vintage Vehicles

***Equipment***

- Motor Vehicle Equipment
- Excess Special Equipment
- Motor Home Contents

***Individual***

- Extended Third-Party Legal Liability
- Excess Underinsured Motorist Protection
- Loss of Use
- Vehicle Travel Protection
- RoadStar/Roadside Plus

*Car seat head restraint geometry is measured using a device developed by ICBC and Rona Kinetics. Since 1993, ICBC has been promoting better seat and head restraint design in order to help reduce injuries and claims costs.*

Insurance brokers are key business partners for ICBC, distributing the Corporation's insurance products and providing other services. ICBC and the brokers are guided in this partnership through the five-year Broker Strategic Accord, which expires December 31, 2007, and Autoplan Agency Agreements that govern the contractual relationship between ICBC and individual agencies.

*Claims adjusters assess and explain vehicle damages and repairs that are required.*

The collision repair industry provides auto repair services to BC motorists. In 2005, ICBC, the Automotive Retailers Association (ARA), and New Car Dealers Association (NCDA) negotiated a three-year Collision Repair Industry Agreement that commits the ARA, NCDA and ICBC to a performance-based system that is fair and is in the best interest of customers by delivering safe, quality, guaranteed repairs.

## Loss Management

ICBC invests in loss management programs that provide a direct benefit to its customers through reduced claims costs that ultimately help keep rates low and stable. ICBC works with many partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the Ministry of Transportation, the law enforcement community, brokers, municipalities, community groups, and volunteers.

*Speed Watch is a partnership between volunteers, police and ICBC designed to help reduce speed-related crashes by raising public awareness of the actual speeds at which drivers are travelling.*

### ENFORCEMENT SUPPORT

ICBC provides funding to the Ministry of Public Safety and Solicitor General for enhanced traffic law enforcement initiatives. The Corporation provides funding that enables law enforcement agencies to devote additional resources to activities that reduce crashes caused by impaired driving, speed and aggressive driving, as well as injuries caused by motorists not wearing seat belts.

### FRAUD PREVENTION

Zero tolerance for fraud is one part of ICBC's strategy to keep rates low and stable. ICBC uses a number of techniques and tools to investigate all types of suspected fraud, including staged crashes and claims, vendor and premium fraud, and licensing and identity fraud. ICBC also recovers monies paid out in cases where fraud has been perpetrated against the Corporation.

*RCMP helicopter AirOne, partially funded by ICBC, is dedicated to traffic enforcement in the lower mainland.*

*— Photo courtesy of Mark McWhirter.*

### AUTO CRIME PREVENTION

ICBC works with partners and volunteers to develop community solutions to address auto crime. These tactics include continued support for the Bait Car program, sharing the costs of increased parking lot patrols with business improvement associations, providing equipment for community policing groups to help identify stolen vehicles, and supporting public awareness campaigns that encourage motorists to take steps to protect their vehicles.

### AUTOPLAN BROKER ROAD SAFETY PROGRAM

The road safety partnership between ICBC and its brokers is a five-year agreement that expires on December 31, 2007. Through this agreement, ICBC and brokers work together on initiatives to make BC roads safer and reduce crashes. Many of these initiatives involve working with children, youth and their parents in local communities, helping to create strong community partnerships.

### ROAD IMPROVEMENT AND ROAD SAFETY PLANNING

ICBC works with partners like the Ministry of Transportation and municipalities to make improvements to high crash locations and to provide information to improve the safety of new roads and communities.

## Non-Insurance Services

ICBC provides a number of non-insurance services on behalf of the provincial government, which include driver licensing, vehicle licensing and registration, and government fines collection. In addition, for a three-year period ending March 31, 2006, ICBC provided funding to the provincial government for commercial vehicle compliance after this function was transferred to the provincial government from ICBC on April 1, 2003. The Service Agreement established in 2003 between the provincial government and ICBC outlines the provision of these non-insurance services and the associated costs.

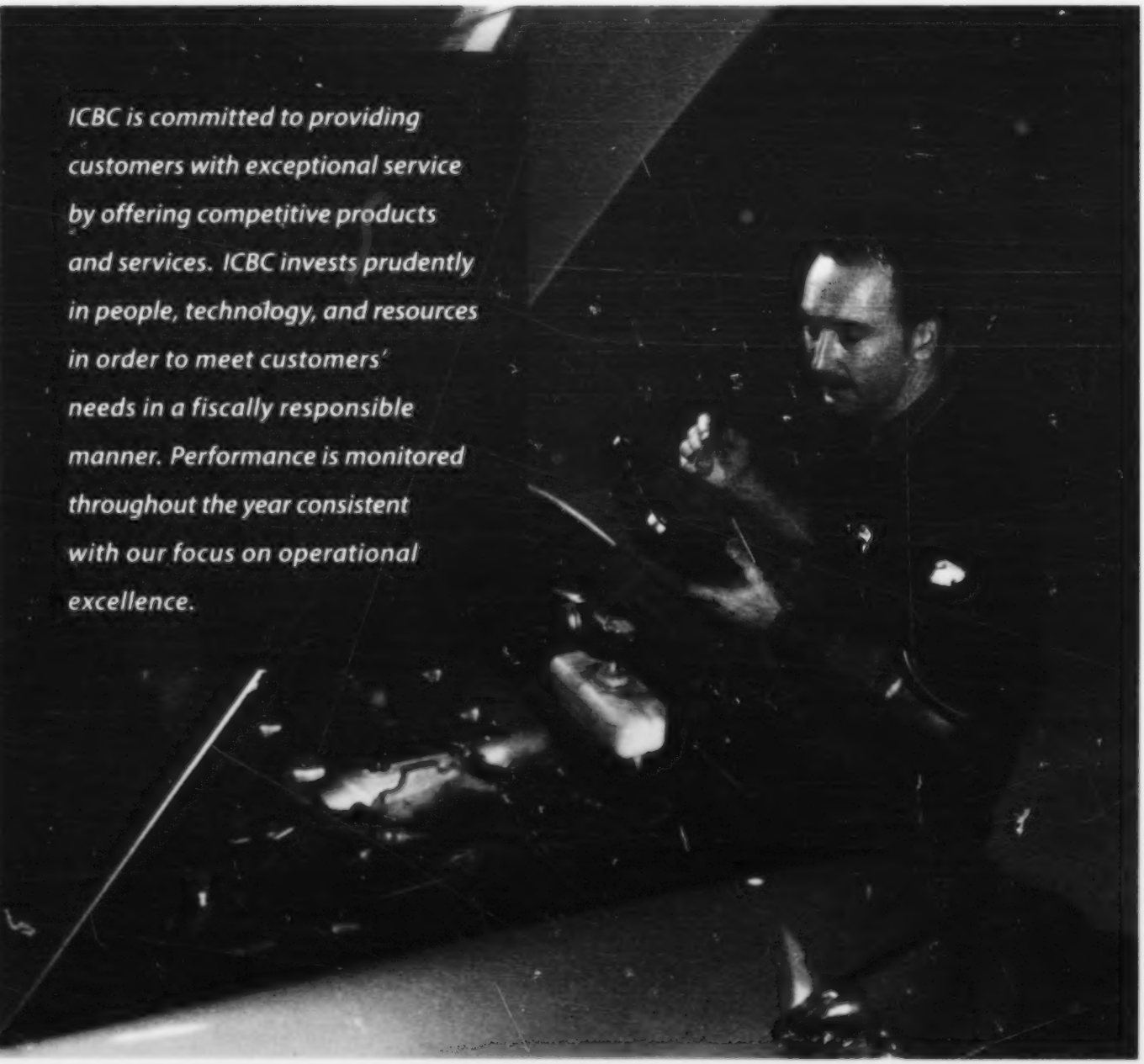
### Driver Licensing and Fines Collection

Driver licensing services are provided through approximately 120 points of service, including driver service centres, expressways, appointed agents, and government agents' offices throughout BC. ICBC processes almost one million driver licensing transactions and performs more than 400,000 driver examinations annually. On behalf of the provincial government, ICBC collects and remits revenues from driver and vehicle licences, fees and fines, and motor vehicle and other debts. ICBC also administers the Graduated Licensing Program (GLP) and the regulations that govern the driver training industry.

*One step in applying for a driver licence is vision screening to ensure drivers have the minimum visual skills to safely operate a motor vehicle.*

## Vehicle Registration and Licensing

Since the mid 1970s, ICBC has been collecting vehicle registration and licensing fees and managing the issuance of vehicle licence plates and decals on behalf of the provincial government. ICBC provides these services through its network of brokers who perform registration and licensing functions at the time of insurance purchase. The linkage between the requirement for vehicle registration and licensing prior to issuing of compulsory insurance minimizes the number of unlicensed and uninsured vehicles operating in BC.



*ICBC is committed to providing customers with exceptional service by offering competitive products and services. ICBC invests prudently in people, technology, and resources in order to meet customers' needs in a fiscally responsible manner. Performance is monitored throughout the year consistent with our focus on operational excellence.*

# Report on Performance

ICBC's 2006 Annual Report provides information on the Corporation's performance and results based on the goals, objectives and measures outlined in ICBC's 2006 – 2008 Service Plan. The four goals outlined in that Plan were to: become more competitive; be revenue driven and fiscally responsible; be customer focused; and have personally accountable, capable and engaged people.

Since late 2002, these goals focused the Corporation to achieve significant successes, including: restoring financial strength; becoming more performance-driven; improving pricing, products and services; settling collective agreements; and, preparing for full implementation of the new legislative and regulatory insurance framework established by the provincial government.

ICBC's financial results are positive for 2006. With continued strong investment income, growth in premium revenue associated with an increase in the vehicle population and the 2006 rate increase for Basic insurance, prudent management of operating costs, and the positive impact of required adjustments to deferred premium acquisition costs (see explanation on page 42), ICBC reported net income of $350 million in 2006.

Rising injury claims costs are a concern throughout the automobile insurance industry. At ICBC, claims costs account for approximately $2.6 billion or approximately 75% of ICBC's total expenditures, and injury claims costs make up over 60% of that amount, or $1.6 billion in 2006. In 2006, net claims incurred increased by $118 million over 2005, and 2007 claims costs are projected to be another $100 million higher than in 2006. Since the majority of the costs of injury claims are borne by Basic insurance, it is important to address rising costs in order to minimize increases in Basic insurance rates.

ICBC is actively addressing increasing claims cost pressures. In 2006, ICBC implemented improvements to claims handling processes and developed a more coordinated approach to handling litigated files. These changes help moderate increasing injury claims cost trends.

Insurance premiums are directly related to the number and costs of claims and, with rising injury claims costs, in July 2006 the British Columbia Utilities Commission (BCUC) confirmed a 6.5% increase in Basic insurance rates, effective March 15, 2006. With the projected increase in 2007 claims costs, ICBC's 2007 revenue requirements submission, filed with the BCUC in March 2007, recommended a 3.3% increase in Basic insurance rates.

Optional insurance rates are impacted less by injury claims cost increases. In 2005, ICBC announced a $100 million reduction in rates for Optional insurance coverages which are reflected in ICBC's 2006 premiums. ICBC continues to better align insurance premiums with risk and, in March 2007, announced changes to Optional insurance rates to lower premiums for ICBC's better-risk customers. These changes resulted in a 3.8% decrease in the average premiums for Optional insurance coverage.

ICBC made progress on its goals and objectives in a number of areas in 2006. Accomplishments include the successful negotiation of a collective agreement between ICBC and COPE Local 378 that extends to June 30, 2010. Settlement of the collective agreement provides a measure of certainty and stability to the Corporation and its employees. ICBC also worked with the provincial government to renew its Shareholder's Letter of Expectations, which establishes ICBC's mandate to provide Basic and Optional automobile insurance for BC motorists and to provide driver licensing and vehicle licensing and registration services on behalf of the Province. In addition, preparation for the June 2007 full implementation of the new legislative and regulatory automobile insurance framework was a major focus in 2006.

ICBC's corporate strategy was another key area of focus in 2006. In order to build on successes to date and prepare for future challenges and opportunities, ICBC reviewed and updated its corporate strategy in 2006. The revised corporate strategy, against which ICBC will begin reporting in 2007, is based on the vision and mission that *"ICBC will be BC's preferred auto insurer, providing protection and peace of mind"* and that *"ICBC will deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers."*

The updated corporate strategy strengthens the focus on customers, focuses the goals and objectives to make them more meaningful, integrates the principle of operating competitively throughout all aspects of the strategy, and enhances the focus on operational excellence. The four goals supporting the new vision and mission are: *customer focus; financial responsibility; high-performing, engaged and capable people; and, operational excellence.* Additional information on ICBC's updated corporate strategy, vision, mission, goals, objectives, strategies and measures can be found in ICBC's 2007 – 2009 Service Plan, which is available on-line at www.icbc.com/inside_icbc/servplan/servplan.asp.

Looking ahead, further strategies to address growing claims costs continue to be a high priority for ICBC in 2007, including additional measures to help reduce the frequency and severity of injury claims, better align premiums with risk, and enhance claims handling processes. ICBC's 2007 rate design application to the BCUC emphasizes changes to Basic insurance to make rates more reflective of the risk each driver represents. ICBC will also be working with the provincial government, partners, stakeholders and communities on reducing the risk on BC roads and mitigating increasing claims cost trends.

Legislation passed in 2006 by the provincial government creates a common legislative and regulatory auto insurance framework for Optional insurance and will come into effect on June 1, 2007. Preparation for full implementation of the new framework involves considerable business changes for ICBC and brokers and is a top priority for 2007. Developing and implementing people strategies aligned with business objectives is another priority for 2007 to help ICBC attract and retain the right people to help realize ICBC's vision within the increasingly competitive BC labour market. In addition, ICBC will continue to prudently manage operating costs while moving forward on necessary reinvestments in the business and providing high-quality customer service.

## SUMMARY FINANCIAL PERFORMANCE AND OUTLOOK

The table below provides an overview of ICBC's 2006 financial performance relative to its 2006 – 2008 Service Plan and a forecast of financial results for the next three years as set out in ICBC's 2007 – 2009 Service Plan. These results and forecasts form the basis upon which key performance targets are set.

| ($ Millions) | 2006 Plan | 2006 Actual | 2007 Plan | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|
| Premiums earned | $3,207 | $3,257 | $3,434 | $3,542 | $3,662 |
| Service fees | 47 | 47 | 57 | 58 | 59 |
| **Total earned revenues** | **3,254** | **3,304** | **3,491** | **3,600** | **3,721** |
| Net claims incurred[1] | 2,574 | 2,643 | 2,747 | 2,892 | 3,046 |
| Claims service and loss management | 307 | 301 | 304 | 312 | 320 |
| Insurance operations expenses | 159 | 133 | 151 | 155 | 159 |
| Premium taxes and commissions[2] | 392 | 292 | 414 | 430 | 444 |
| **Total expenses** | **3,432** | **3,369** | **3,616** | **3,789** | **3,969** |
| **Underwriting loss** | **(178)** | **(65)** | **(125)** | **(189)** | **(248)** |
| Investment income | 404 | 512 | 442 | 467 | 496 |
| Non-insurance expenses | 95 | 97 | 92 | 95 | 98 |
| **Net income** | **$ 131** | **$ 350** | **$ 225** | **$ 183** | **$ 150** |

[1] Claims incurred include prior years' claims adjustments.
[2] Premium taxes and commissions include deferred premium acquisition cost (DPAC) adjustments. 2006 benefited from an $87 million positive DPAC adjustment.

ICBC's net income for 2006 was $350 million, based on total revenues of $3,304 million, investment income of $512 million, and total expenses of $3,466 million.

Premiums earned were $50 million higher than plan, primarily due to a higher than expected increase in the number of vehicles insured, and continued strong sales of Optional insurance products. Investment income was $108 million higher than plan as investment markets and returns remained strong.

Claims incurred were $69 million higher than plan, primarily reflecting a continued increase in the cost of injury claims. Claims services, loss management and non-insurance services costs were on track with plan, while expenses for insurance operations were $26 million lower than plan due to lower than expected spending on business change initiatives and general operating expenses. Premium taxes and commissions were $100 million lower than plan, mainly due to a positive adjustment to deferred premium acquisition costs (DPAC) associated with the turnaround in the Basic insurance business, partly driven by higher rates (see page 42 for further discussion of DPAC).

ICBC has identified a number of factors that could impact future performance, including potential impacts from full implementation of the new legislative and regulatory auto insurance environment, increased competition in the Optional insurance market and requirements for increased data-sharing, claims cost pressures, volatility in the investment markets, and the need for reinvestment in and evolution of service delivery. The outlook presented in ICBC's 2007 – 2009 Service Plan was prepared based on ICBC's assessment of these risks and other assumptions. Further information on potential issues and risks can be found in the "Business Risks and Risk Management" section of this report.

The following sections provide further information on ICBC's goals, objectives and key strategies, as well as its 2006 performance results relative to the measures and targets outlined in ICBC's 2006 – 2008 Service Plan. Accordingly, results are presented based on ICBC's previous corporate strategy, which included the goals of: becoming more competitive; being revenue driven and fiscally responsible; being customer focused; and having personally accountable, capable and engaged people. Performance targets for 2007, as outlined in ICBC's 2007 – 2009 Service Plan, are also provided where measures are consistent with the revised corporate strategy and revised goals of: customer focus; financial responsibility; high-performing, engaged and capable people; and operational excellence.

To assess progress against its goals and objectives, ICBC relies on a number of financial and non-financial corporate performance measures. Where possible, the Corporation uses standard industry measures that enable benchmarking with other insurers; however, industry benchmarks specific to automobile insurance are not readily available. In other cases, because ICBC's business model is relatively unique among property and casualty (P&C) insurers, ICBC develops distinct measures relevant to the area of performance. Performance against these measures is monitored throughout the year and actions are taken to address significant variances.

ICBC data used in the calculation of performance results are derived from the Corporation's financial and operating systems or are based on independent surveys. Where appropriate, comparative figures have been restated to conform to the current year's presentation. The controls over the financial systems are periodically reviewed by ICBC's internal and external auditors, and independent surveys used in assessing customer satisfaction are conducted by experienced and reputable firms. Where external sources of data are used, the most current available information is used. ICBC recognizes the inherent limitations in all control systems and believes the systems provide an appropriate balance between costs and benefits desired.

## Goal: Become More Competitive

Becoming more competitive is about providing quality products and services to customers; this applies equally to ICBC's Basic and Optional lines of business. As the sole provider of Basic insurance, ICBC works to ensure that its services meet the needs of the driving public, provide value to customers, and that products are priced appropriately. ICBC applies the same approach in providing Optional insurance, except that it competes with private insurers on price and in delivering Optional insurance products and services.

Consistent with industry practice, ICBC holds specific levels of capital for Basic and Optional insurance. Achieving adequate capital levels helps absorb the impact of unexpected events such as sudden spikes in claims costs or a significant reduction in investment income, and helps to maintain a stable rate environment for ICBC's customers.

### Become More Competitive

**Multi-Year Objectives and Strategies: 2006 – 2008 Service Plan***

**Objectives:**

- Deliver innovative, competitive, and tailored products and services
- Achieve planned financial results

**Measures:**

- Minimum capital test (MCT)
- Combined ratio
- Investment return

**Strategies:**

- Maintain stability of the Basic insurance product
- Manage Optional products to ensure they remain competitive
- Support regulatory processes through improved analytical capabilities
- Effecively manage legislative and regulatory change

** Revised goals, objectives, strategies and measures for 2007 and future years are reflected in ICBC's 2007 – 2009 Service Plan*

ICBC's focus on customers is a key goal of the corporate strategy. Changes in service delivery, product pricing or design, and evolving customer needs impact overall customer satisfaction and ICBC's competitive position.

ICBC's operating environment has changed over the last several years and the remaining changes in the legislative and regulatory framework for automobile insurance in BC will come into effect on June 1, 2007. The changes provide a common legislative framework with respect to the competitive auto insurance business and benefits customers by providing improved information. Preparations for these changes in operations and services were a primary focus for ICBC in 2006.

The program of escalating deductibles for comprehensive (Optional insurance) claims was introduced in 2002. The impact of escalating deductibles is that customers with higher numbers of claims are required to self-insure for a larger amount through a larger deductible. Taking into account customer feedback, in 2006 ICBC began changes to the program to: improve notification to customers whose history could result in an escalation of their deductibles; institute an automatic review of a policy history three years after a restriction to see if a lower deductible would now be appropriate; and, improve options for customers with an unusually high number of comprehensive or specified perils claims.

The 2005 reductions in ICBC's Optional insurance rates reduced insurance premiums for approximately 1.6 million better-risk customers. The financial impact of this reduction continues to affect 2006 results. Reductions in Optional insurance rates announced in March 2007 further improve competitive rates for ICBC's better-risk customers.

For Basic insurance, ICBC completed its first detailed revenue requirements submission with the BCUC in 2006 and recommended a 6.5% increase in Basic insurance rates primarily due to significant increases in injury claims costs. The BCUC approved this increase on an interim basis on March 15, 2006, and confirmed the increase in its July 13, 2006 decision.

In 2006, ICBC implemented internal systems and process improvements to support the regulatory process. This included changes to enhance the preparation of information for ICBC's filings with the BCUC and stakeholder consultations to increase understanding and seek opinions on rate design issues.

Insurance brokers are a key business partner in delivering ICBC's insurance products. By providing easily accessible resources for brokers through the Autoplan Extranet and other electronic sources, ICBC is able to enhance services for customers. Enhancements to the ways brokers access ICBC information, products and services continued in 2006, with a number of usability enhancements and data download improvements.

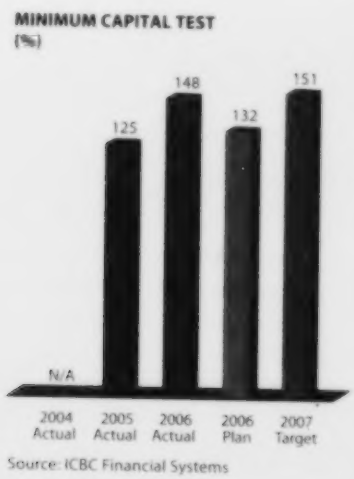
## Performance Measures, Targets and Results:

### MINIMUM CAPITAL TEST (MCT)

Beginning in 2006, ICBC began using MCT as a financial performance measure. Prior to 2006, ICBC used return on equity as a public performance measure; however, return on equity measures corporate profitability as opposed to ICBC's corporate goal of maintaining appropriate capital levels. Return on equity was therefore not an optimal measure for the Corporation and has been discontinued for public performance reporting.

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. MCT measures capital available compared to capital required and is used to assess whether a company has sufficient capital to protect policyholders from financial risk and provide long term financial stability.

ICBC's 2006 corporate MCT was 148%. This is 23 percentage points higher than 2005 actual results and 16 percentage points higher than the 2006 plan mainly due to ICBC's 2006 higher net income. Net income increases the amount of retained earnings held by the Corporation, thereby increasing available capital. ICBC intends to maintain a minimum capital level of 150% in order to meet its capital management plan target. The 2007 target for MCT for ICBC is 151%.




Source: ICBC Financial Systems

### COMBINED RATIO

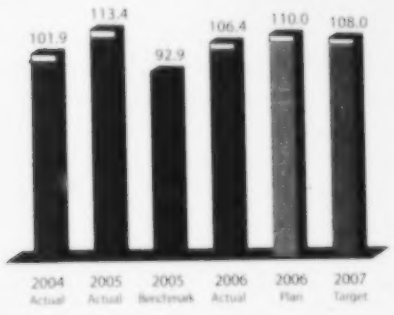
The combined ratio is a key measure within the insurance industry for overall profitability and is the ratio of costs to premium dollars earned. A ratio below 100% indicates an underwriting profit (i.e. premiums are sufficient to cover costs) while a ratio above 100% indicates an underwriting loss (i.e. premiums are not sufficient to cover costs).

Costs that affect the combined ratio are claims costs, claims-related costs, operating costs, and acquisition costs. After a significant increase in ICBC's combined ratio in 2005, primarily due to higher injury claims costs, ICBC's 2006 combined ratio of 106.4% was lower than both 2005 actual results and the 2006 plan. The 2006 results are primarily related to higher premium revenue and lower acquisition costs due to the required adjustment to deferred premium acquisition costs (DPAC) that had a positive impact on ICBC's results. A benchmark specific to automobile insurance is not readily available and the 2006 property and casualty (P&C) benchmark is not yet available; however, the 2005 P&C industry benchmark was 92.9%.[1]

ICBC is somewhat unique in that it also delivers non-insurance services on behalf of government and these costs are reflected in its combined ratio. In 2006, non-insurance costs were lower than in 2005. This reflects the March 31, 2006 completion of ICBC's three-year agreement to provide funding to the provincial government for commercial vehicle compliance operations that were transferred to the Province from ICBC in 2003.

The combined ratio target for 2007 is slightly higher than 2006, reflecting current expectations about higher claims costs, and does not plan for an adjustment to DPAC. The 2007 target for non-insurance expenses is lower than in 2006 and reflects the conclusion of ICBC's payments to the provincial government for commercial vehicle compliance ($6.2 million was paid for this purpose in 2006).

**COMBINED RATIO**
**(%)**




Source: ICBC Financial Systems

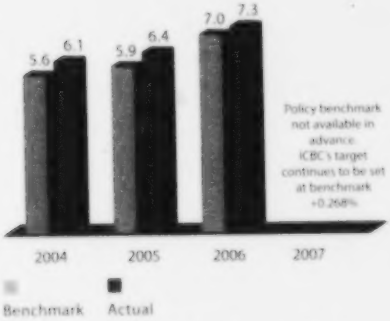
## INVESTMENT RETURN

ICBC manages an investment portfolio with a book value of approximately $7.7 billion at the end of 2006. The portfolio is conservatively invested with the majority of assets held in investment grade bonds. These assets are held primarily to provide for future claims payments and the income earned on these investments helps to reduce the amount of premiums collected from policyholders. In 2006, earnings from investments reduced the average premium policyholders would have otherwise paid by more than $170 per policyholder.

Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard industry benchmarks. In addition, the return of the overall portfolio is measured against a policy benchmark calculated as the average of individual asset class benchmark returns weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures established by ICBC's Board of Directors.

ICBC's investment returns continue to compare favourably to market returns. Over a four year period, ICBC has established an added value objective to exceed the four-year annualized market-based benchmark by 0.268%. For 2006, ICBC's four-year annualized return was 7.32% and the comparable market benchmark was 6.98%.[2] The difference of 0.34% exceeded the added value objective of 0.268%.

**INVESTMENT RETURN**
(Four-year Annualized)
**(%)**




Source: Return calculated by independent firm.

## Goal: Revenue Driven and Fiscally Responsible

Being revenue driven and fiscally responsible provides the financial foundation for ICBC to meet its other goals and to provide low and stable rates to its policyholders. ICBC continues to exercise prudent financial management, to invest in road safety and loss prevention strategies that help manage the frequency and cost of claims, and to pursue performance-based supplier arrangements and procurement opportunities that capitalize on its economies of scale.

### Revenue Driven and Fiscally Responsible

**Multi-Year Objectives and Strategies: 2006 – 2008 Service Plan***

**Objectives:**

- Excel in operational effectiveness and efficiency
- Minimize claims costs, severities, and frequencies
- Improve the value of goods and services purchased and the recovery of costs for services provided

**Measures:**

- Loss ratio
- Expense ratio
- Claims efficiency ratio

**Strategies:**

- Deliver programs and initiatives to manage the frequency and cost of claims
- Ensure customers receive the most value from premium dollars by focusing on relationships with key suppliers
- Maintain and upgrade systems and applications

** Revised goals, objectives, strategies and measures for 2007 and future years are reflected in ICBC's 2007 – 2009 Service Plan.*

Key drivers of ICBC's financial success have been the reduction of costs through operational efficiencies, performance-based agreements with key suppliers, and investments in loss management programs. ICBC also partners with the Ministry of Public Safety and Solicitor General, the Ministry of Transportation, and municipalities on programs and initiatives to increase safety, reduce the risk on BC roads, and reduce claims costs, in order to help keep rates low and stable over the longer term.

In 2006, ICBC implemented initiatives to improve the way in which claims are handled and restructured the litigation centres in Burnaby and Surrey to help address rising costs through enhanced coordination of litigated injury claims. Consistent with its 2006 strategies, information technology was maintained and upgraded to improve efficiency and customer service. These included customer service centre upgrades, data support for the new law enforcement Automated Licence Plate Recognition system, and upgrades for licensing functions performed by government agents on ICBC's behalf.

In order to improve the management of services provided by suppliers, in 2006 ICBC signed contracts for a three-year term, effective January 1, 2007, with 105 law firms throughout the province. The firms were selected following a competitive Expression of Interest process and the contracts allow ICBC to partner with the defence firms to provide legal services to ICBC at reasonable costs.

In 2006, approximately $48.4 million was invested in loss management initiatives that helped address rising claims costs by reducing crashes, auto crime and fraud. Projects included improvements to road design at high-risk locations; programs that encouraged safe driving such as Zero Crash Month; programs delivered in partnership with provincial and municipal governments and other agencies, such as the Bait Car program; and, enhanced traffic law enforcement initiatives.

High-risk drivers are a serious concern and they cause a disproportionate number of crashes. In 2005 there were more than 100 traffic fatalities caused by impaired driving and more than 200 fatalities caused by high-risk driving such as excessive speed and ignoring traffic signals. ICBC continues to work with the provincial government to develop programs to improve road safety and to help manage claims costs. ICBC also continues to develop ways to better match premiums with risk.

ICBC has a zero tolerance policy on fraud and proactively works to prevent insurance fraud and to recover the costs where fraud has occurred. In 2006, 108 fraud-related criminal charges were laid against 84 people and other

fraud cases were pursued through civil court. In September 2006, ICBC announced a pilot project called "No Free Ride", which is aimed at deterring auto thieves by making both adult and juvenile offenders financially responsible for the entire cost of a theft claim. In 2005 there were almost 21,000 vehicles reported stolen to ICBC at a cost to policyholders of $86 million. The No Free Ride program will aid in recovering claims costs from auto thieves.

## Performance Measures, Targets and Results:

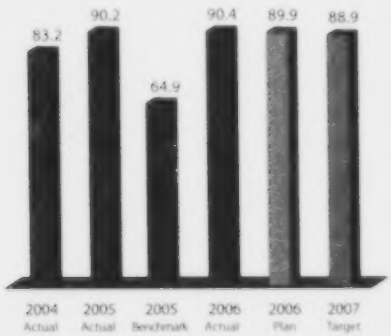
### LOSS RATIO

A key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability. This measure is the ratio of the total of claims and claims related costs, including loss management costs, to insurance premium dollars earned; the lower the percentage, the more profitable the product.

In 2006, ICBC's loss ratio was 90.4%, slightly higher than its 2005 actual results and 2006 plan ratio, primarily due to higher claims costs and higher prior years' claims adjustments. An industry benchmark specific to automobile insurance is not readily available. The 2006 P&C industry benchmark is not yet available; however, the 2005 P&C industry benchmark was 64.9%.[3]

The 2007 target shows improvement over 2006 and reflects current expectations for premium revenue, and trends in the number and severity of claims.

**LOSS RATIO**
**(%)**




Source: ICBC Financial Systems

### EXPENSE RATIO

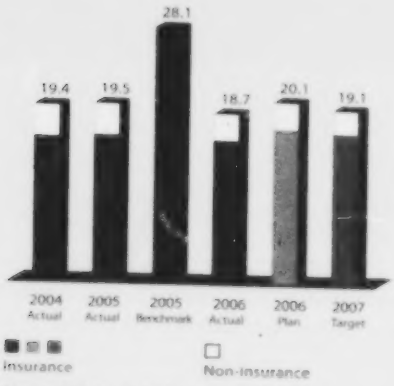
The expense ratio is a standard industry measure for assessing the operational efficiency of an organization and is the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid to government on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver licensing and vehicle registration. To facilitate comparisons with industry benchmarks, the expense ratio excludes the impact of one-time non-recurring items and adjustments to DPAC.

For ICBC, the expense ratio consists of two components: the insurance expense ratio and the non-insurance expense ratio. ICBC incurs costs for non-insurance expenses such as driver licensing, commercial vehicle compliance, vehicle registration and licensing, and government fines collection that other insurance companies do not incur. Segregating expenses in this way allows ICBC to better manage the costs of operating its insurance business, and more accurately reflects the distinct nature of ICBC's operating model relative to other automobile insurers.

ICBC's expense ratio for 2006 was 18.7%. This is lower than both 2005 actual results and the 2006 plan. This reflects ICBC's continued focus on prudent financial management, as well as the March 31, 2006 completion of ICBC's three-year agreement to provide funding to the Province for commercial vehicle compliance. ICBC's expense ratio is considerably lower than the 2005 P&C industry benchmark of 28.1%[3] (a benchmark specific to automobile insurance is not readily available).

The 2007 target for ICBC's expense ratio reflects current expectations about premiums and operating costs and takes into account the March 31, 2006 completion of ICBC's three-year funding agreement for commercial vehicle compliance operations ($6.2 million in 2006).

**EXPENSE RATIO**
**(%)**




Source: ICBC Financial Systems

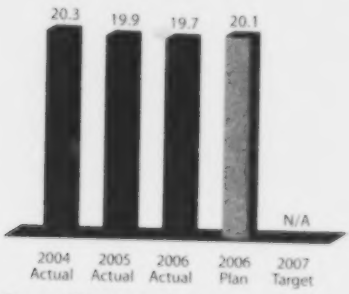
## CLAIMS EFFICIENCY RATIO

ICBC has used the claims efficiency ratio to measure ICBC's claims handling for the last few years. This measure is the ratio of claims handling costs (including allocated expenses) over claims paid less the allocated expenses. Allocated expenses consist primarily of outside legal counsel fees and disbursements, medical reports, private investigators, independent adjusters, and towing costs.

In 2006, ICBC's Board of Directors approved changes to the Corporation's performance measures. Beginning with the 2007 – 2009 Service Plan, the claims efficiency ratio will be discontinued for the purposes of public reporting and will be replaced by measures developed for the new "Operational Excellence" corporate goal. The new measures will be used to evaluate overall corporate efficiency of ICBC's insurance operations (including claims) and driver services operations.

ICBC's 2006 claims efficiency ratio of 19.7% is slightly lower than the 2005 actual results and the 2006 plan. Claims handling costs were lower than plan and claims costs were higher than plan, resulting in a slightly lower claims efficiency ratio.

**CLAIMS EFFICIENCY RATIO**
**(%)**




Source: ICBC Financial Systems

## Goal: Customer Focused

Being customer focused means understanding customers' needs and expectations, building a relationship of trust with customers based on providing exceptional value, hassle-free claims service, and ease of doing business. ICBC is working to improve customer satisfaction by delivering services to its customers in a fair and respectful manner, and by enhancing service delivery and interactions with key business partners. ICBC is committed to continuous improvement, competitive prices, and customer convenience in accessing services.

### Customer Focused

**Multi-Year Objectives and Strategies: 2006 – 2008 Service Plan***

**Objectives:**

- Increase customer understanding and approval of ICBC

**Measures:**

- Insurance services satisfaction
- Driver services satisfaction
- Claims services satisfaction

**Strategies:**

- Achieve competitive levels of customer service and satisfaction
- Strengthen service channels to improve customer satisfaction and enhance efficiencies
- Enhance the broker relationship to support customer service
- Enhance service offerings to customers

** Revised goals, objectives, strategies and measures for 2007 and future years are reflected in ICBC's 2007 – 2009 Service Plan.*

Having customer focus as a goal ultimately speaks to delivering exceptional value, peace of mind, and competitive pricing for both ICBC's Basic and Optional insurance products, its driver services, and its claims services. Some examples of this include: 24/7 claims services where customers can speak to an adjuster; extending hours of service at key claim centres and driver services centres; and loss prevention programs and driver licensing initiatives to help make roads safer for all British Columbians.

Changes to improve claims handling processes can have a positive impact on both claims costs and on customer service. 2006 examples include the customer service call centre technology upgrades that improve efficiency and the ability to respond to customer requests; establishing province-wide customer service call centre access so that qualified customers can settle their injury claims over the phone; expansion of the Hospital Discharge Program to help improve customer access to appropriate services to support their recovery; and improvements to claims handling procedures that improve effectiveness and help to ensure that customer needs are being addressed through the claims process.

A recent customer survey clearly showed a need for extended hours of service, specifically during the early morning and late afternoon/evening. To better meet this demand, ICBC adjusted its hours of service at the existing locations that operate with extended hours, and announced further expanded hours of service at seven other claim centre locations, to be implemented in 2007.

A greater number of individuals now rely on mobile technology and, in 2006, ICBC launched a specific website for customers to better access information on their web-enabled cell phones or hand-held electronic devices. The site provides information on what an individual needs to do, should they be in a crash.

The annual AutocheX Premier Achiever Awards were held in November 2006 and the winners included twenty-five ICBC c.a.r. shop VALET facilities chosen from 9,000 entries across North America. The award criteria is based on a minimum score of 98.8% for customers recommending the shop to friends and family, which is considered the strongest indicator of loyalty and satisfaction. ICBC is pleased to work with and would like to congratulate BC's 2006 award winners in customer service.

## Performance Measures, Targets and Results:

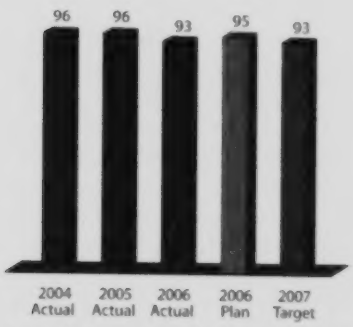
The key customer service measure of performance for ICBC is the percentage of satisfied customers. A separate measure is used for each major transaction type: insurance services; driver services; and claims services. An independent research firm conducts ongoing customer surveys to monitor satisfaction.

### INSURANCE SERVICES SATISFACTION

Each year, ICBC and independent insurance brokers process approximately 5.6 million insurance transactions for customers. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent insurance transaction and is based on quarterly surveys of over 1,000 customers over the course of a year.

This measure is typically over 90% and is evidence of the positive relationship ICBC and its brokers enjoy with customers. For 2006, the results were 93% and, although this is a slight decrease from 2005 and from the 2006 plan, it still represents a high level of customer satisfaction. The 2007 target is consistent with 2006 results as it reflects the potential impacts of changes in the legislative and regulatory auto insurance framework that are to be implemented in June 2007. These changes include a separate Optional policy contract, which will be new for ICBC, brokers and customers. While the separate contract is important in increasing consumer awareness of products and choices, it may initially increase the time it takes to complete a transaction. With time as one of eight factors used in rating customer satisfaction, the 2007 target provides a challenge for the corporation to meet this level of satisfaction.

**INSURANCE SERVICES SATISFACTION (%)**



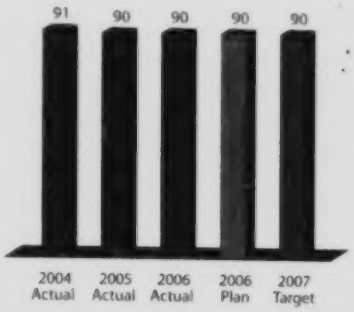

Source: Surveys conducted by independent firm.

### DRIVER SERVICES SATISFACTION

Each year, ICBC conducts over 1.4 million transactions relating to driver licences and driver exams. The driver services satisfaction measure represents the percentage of customers satisfied with a recent driver transaction with ICBC. The transaction could relate to renewing a licence, taking a knowledge test, or undergoing a road test. The measure is drawn from a sample of almost 4,000 customers surveyed annually and is weighted by the number of transactions for each type of service.

2006 results for driver services satisfaction are consistent with 2005 actual results and the 2006 plan. This measure is typically at or over 90% and is indicative of ICBC's commitment to customer service. The 2007 target is consistent with 2006.

**DRIVER SERVICES SATISFACTION (%)**



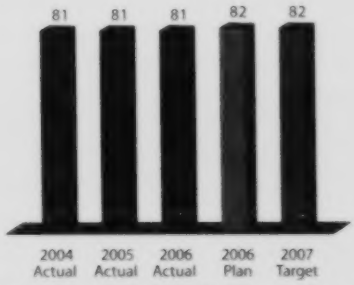

Source: Surveys conducted by independent firm.

## CLAIMS SERVICES SATISFACTION

Almost one million claims are processed each year through ICBC's telephone claims and claims centres across the province. The claims satisfaction measure represents the percentage of customers satisfied with a recent claims transaction and is based on a representative sample of approximately 7,000 customers surveyed throughout the year.

For 2006, ICBC's claims services satisfaction rate was 81%, which is unchanged from 2005 and slightly lower than the 2006 plan. With a satisfaction rating of 80% or more, this means that more than four out of five ICBC customers who have experienced a crash, theft, or other insurable incident, are satisfied with ICBC's service. The 2007 target is consistent with the 2006 plan and slightly higher than 2006 actual results.

**CLAIMS SERVICES SATISFACTION**
**(%)**




Source: Surveys conducted by independent firm.

## Goal: Personally Accountable, Capable and Engaged People

Personally accountable, capable and engaged people will help position the company to succeed in all aspects of its business. Through its people, ICBC provides quality service to its customers, achieves financial success, and differentiates itself from its competitors. ICBC relies on the expertise of its people to deliver value to customers and is committed to providing employees with a working environment that fosters engagement and ensures people have the right tools and training to do their jobs.

### Personally Accountable, Capable and Engaged People

**Multi-Year Objectives and Strategies: 2006 – 2008 Service Plan***

**Objectives:**

- Increase the level of employee engagement
- Ensure that ICBC has a workforce capable of meeting current and future business needs

**Measures:**

- Employee engagement index

**Strategies:**

- Identify and improve key workplace practices that strongly influence workforce engagement
- Build leadership management and talent
- Plan for future workforce needs and implement strategies to achieve these needs

** Revised goals, objectives, strategies and measures for 2007 and future years are reflected in ICBC's 2007 – 2009 Service Plan.*

ICBC strives for excellence in service delivery, loss prevention and operational efficiency, all of which depend on a skilled and engaged workforce. ICBC promotes continuous learning and employee development through coaching and mentoring programs, training and succession planning.

During the first quarter of 2006, ICBC and the Canadian Office and Professional Employees' Union, which represents 4,600 of ICBC's employees, successfully negotiated a four-year collective agreement. With the subsequent ratification of the agreement by union members, the new collective agreement ensures the organization and our employees can be focused on meeting the needs of customers.

In 2006, ICBC's efforts to improve communications within the Corporation to build engagement were recognized with Blue Wave Awards of Excellence, sponsored by the BC Chapter of the International Association of Business Communicators. These initiatives have increased employee understanding of ICBC's direction and its various business initiatives.

As part of the process to update the corporate strategy in 2006, ICBC conducted a thorough examination of its people strategies. This included an assessment of current workforce demographics and external labour market information, targeted internal consultations and workshops, and other research and development activities. The result is a comprehensive three-year plan (2007 – 2009) that targets areas that reflect ICBC's corporate direction over the next three years and the workforce impacts that will arise from making business changes to support that direction.

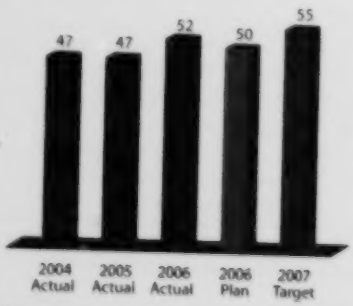
## Performance Measures, Targets and Results:

### EMPLOYEE ENGAGEMENT

This measure represents the overall level of engagement of ICBC employees, as defined by how positively they speak about the organization to co-workers, potential employees, and customers ("say"); the level of desire they have to be a member of the company ("stay"); and the degree of extra effort and dedication they are willing to apply to doing the best job possible ("strive").

ICBC made progress in improving its employee engagement score, which increased to 52% in 2006. ICBC is encouraged by these results, but recognizes that further work needs to be done, specifically in advancing people strategies that drive business results. The 2007 target of 55% underscores ICBC's long term commitment for continued improvement in this area.

**EMPLOYEE ENGAGEMENT INDEX**
**(%)**




Source: Surveys conducted by independent firm.

## Summary of Goals and Performance

The table below provides an overview of ICBC's historical performance and 2007 targets. The results reported below are based on the goals, objectives and measures outlined in its 2006 – 2008 Service Plan.

| Goal | Objectives | Measures | Actual 2004 | Actual 2005 | Actual 2006 | Plan 2006 | Target 2007 |
|---|---|---|---|---|---|---|---|
| Become More Competitive | • Deliver innovative, competitive and tailored optional products and services<br>• Achieve planned financial results | Minimum Capital Test | N/A | 125% | 148% | 132% | 151% |
| | | Combined Ratio | | | | | |
| | | • Claims Costs, Claims Related Expenses, and Insurance Expense | 98.4% | 109.9% | 103.4% | 107.0% | 105.3% |
| | | • Non-insurance Expenses | 3.5% | 3.5% | 3.0% | 3.0% | 2.7% |
| | | Total | 101.9% | 113.4% | 106.4% | 110.0% | 108.0% |
| | | Investment Return | | | | | |
| | | • ICBC Portfolio | 6.07% | 6.36% | 7.32% | Benchmark +0.268% | Benchmark +0.268% |
| | | • Policy Benchmark | 5.61% | 5.89% | 6.98% | | |
| | | Excess | 0.46% | 0.47% | 0.34% | | |
| Revenue Driven and Fiscally Responsible | • Excel in operational effectiveness and efficiency<br>• Minimize claims costs, severities and frequencies through product design, claims cost controls and loss management<br>• Improve the value of goods and services purchased and increase the recovery of costs for services provided | Loss Ratio | 83.2% | 90.2% | 90.4% | 89.9% | 88.9% |
| | | Expense Ratio | | | | | |
| | | • Insurance Expense Ratio[1] | 15.9% | 16.0% | 15.7% | 17.1% | 16.4% |
| | | • Non-insurance Expense Ratio | 3.5% | 3.5% | 3.0% | 3.0% | 2.7% |
| | | Total | 19.4% | 19.5% | 18.7% | 20.1% | 19.1% |
| | | Claims Efficiency Ratio | 20.3% | 19.9% | 19.7% | 20.1% | N/A |
| Customer Focused | • Increase customer approval of ICBC as a result of informed opinions and a better understanding of the value and operations of the company | Insurance Services Satisfaction | 96% | 96% | 93% | 95% | 93% |
| | | Driver Services Satisfaction | 91% | 90% | 90% | 90% | 90% |
| | | Claims Services Satisfaction | 81% | 81% | 81% | 82% | 82% |
| Personally Accountable, Capable and Engaged People | • Increase the level of employee engagement<br>• Ensure that ICBC has a workforce that is capable of meeting current and future business needs | Employee Engagement Index | 47% | 47% | 52% | 50% | 55% |

[1] Excludes deferred premium acquisition cost adjustments.

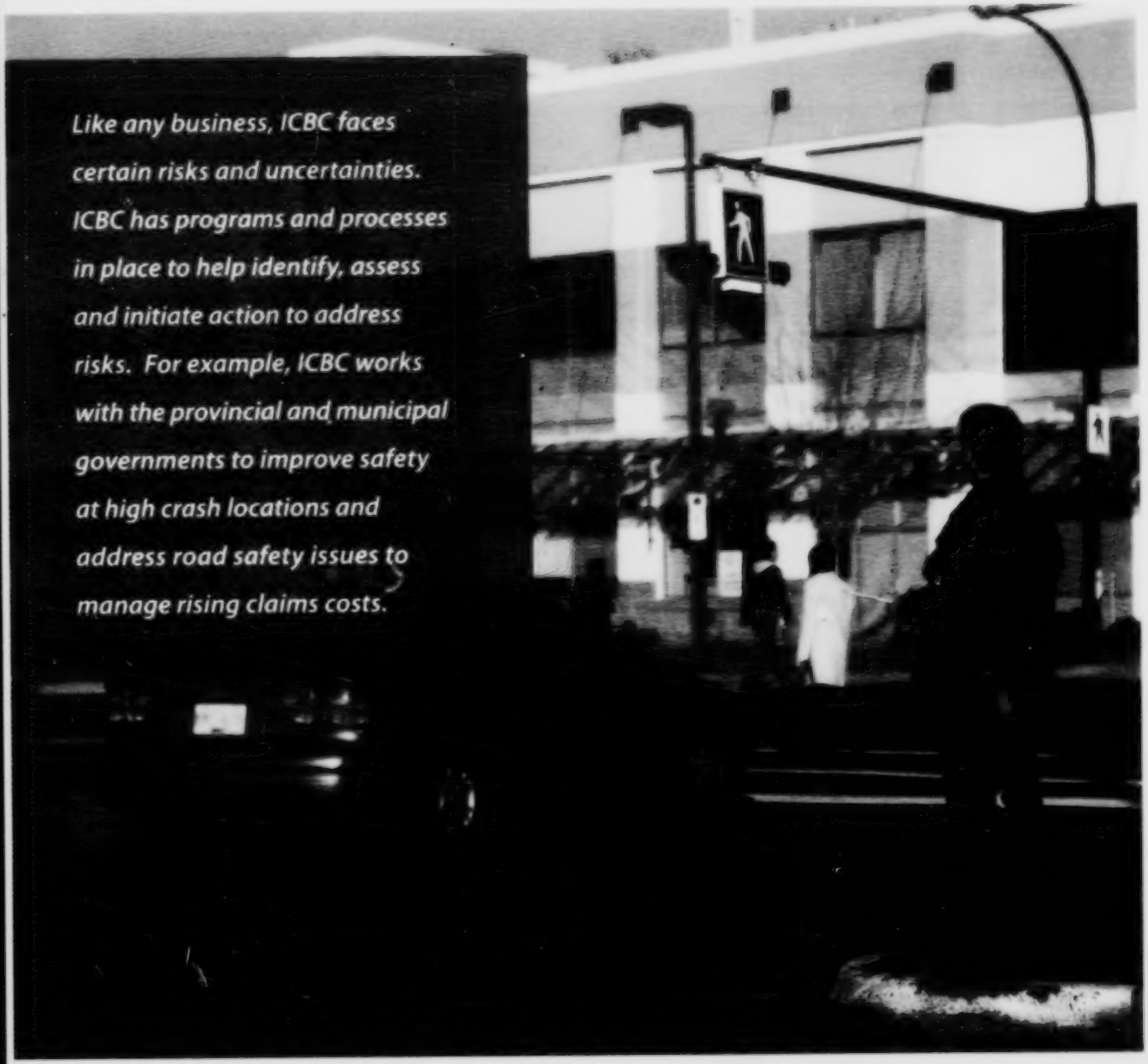
*Certain comparative figures have been restated to conform to the current year's presentation.*

## Alignment with Government's Strategic Plan

ICBC's strategic direction focuses the company on providing significant value to all British Columbians, from the customers who purchase its products and use its services, to individuals who hold a BC driver's licence, to individuals making a claim, to individuals and communities that benefit from its road safety investments. As a provincial Crown corporation, ICBC's strategic direction also supports achievement of the goals put forward by the provincial government, as outlined below.

| BC GOVERNMENT STRATEGIC PLAN<br>Goals | ICBC'S STRATEGIC DIRECTION<br>ICBC Alignment |
|---|---|
| • To make BC the best educated, most literate jurisdiction on the continent. | • ICBC involves the general public in promoting education specific to its mandate and safe driving through joint initiatives with schools, industry associations, brokers, and municipalities.<br>• ICBC invests in employee training programs. |
| • To lead the way in North America in healthy living and physical fitness. | • ICBC plays an important role in assuring the safety of British Columbians. Each year, the company invests in loss management programs that reduce the frequency and severity of crashes, and works with individuals and their communities to address issues such as crime and fraud prevention, and safe driving. |
| • To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors. | • ICBC provides no-fault accident benefits for medical and rehabilitation services that assist victims in returning to work and living independently. Further, the company embraces the values of integrity, fairness and community. |

The Shareholder's Letter of Expectations between the provincial government (the shareholder) and ICBC sets out the general government reporting framework and general directions, and outlines the mutual commitments of ICBC and provincial government. During 2006, ICBC worked with the provincial government to renew ICBC's Shareholder's Letter of Expectations, effective January 2007. The renewed letter affirms ICBC's mandate to provide Basic and Optional automobile insurance, and to provide driver licensing and vehicle licensing and registration services on behalf of the Province. The letter also addresses key priorities for ICBC, including the need to effectively manage the trend of rising injury claims costs, reduce the risks on BC roads, operate in an efficient and effective manner for the benefits of customers, to keep premiums low and stable, and meet the terms of the new legislative and regulatory auto insurance framework that is to be fully implemented in June 2007.



*Like any business, ICBC faces certain risks and uncertainties. ICBC has programs and processes in place to help identify, assess and initiate action to address risks. For example, ICBC works with the provincial and municipal governments to improve safety at high crash locations and address road safety issues to manage rising claims costs.*

# Business Risks and Risk Management

ICBC's Corporate Risk Framework is approved by its Board of Directors. The framework defines the corporate approach towards the effective assessment and management of significant corporate risks. The framework considers both external and internal environments, and the risks and challenges associated with each. The objective of this framework is to identify risks, raise awareness of those risks throughout the Corporation, and to initiate further action to control significant risks. The framework is used by ICBC executives to monitor strategic risks and planned mitigation strategies. Through monitoring, new risks may emerge and other risks may be reduced or eliminated through mitigation strategies. Executive management and the Audit Committee of ICBC's Board of Directors review key corporate risks and status of the related mitigation strategies quarterly and an update is provided to the Board of Directors. Key risks and mitigating strategies are outlined below.

## Automobile Crashes, Crime and Claims Costs

Automobile-related crashes and crime present a significant social and economic cost to all British Columbians. Risks increase as the vehicle population grows and the urban density of many BC communities increases. In addition, changes in driver behaviours and driving conditions can either contribute to or mitigate this risk.

High-risk drivers are a serious concern as they lead to a disproportionate share of crashes and they account for some of the most severe injuries. In 2005, there were more than 100 traffic fatalities caused by impaired driving and more than 200 fatalities caused by high-risk driving behaviours such as excessive speed and ignoring traffic signals. High risk drivers affect everyone's insurance rates. ICBC is working in partnership with the provincial government to deliver initiatives that are aimed at reducing the risks on BC roads, and at reducing the frequency and severity of claims.

Auto crime also impacts insurance costs for all British Columbians. Current trends continue to show the auto crime rate declining and, although this is good news, auto crime will continue to be an area of focus as more than 17,000 stolen vehicles were reported to ICBC in 2006.

### Automobile Crashes, Crime and Claims Costs

**Description of Sensitivities/Risks:**

- Increased claims fraud, severity, frequency, and/or litigation results in higher claims costs. Claims costs account for approximately 75% of ICBC's total expenditures. A 1% fluctuation in claims incurred represents a $25-$30 million change in net income, and a 1% fluctuation in the unpaid claims balance represents approximately $51-$60 million change in claims costs.

**Strategies:**

- ICBC uses a number of strategies to address issues associated with auto crashes, crime and claims costs, including: loss management activities aimed at reducing crashes, preventing injuries and reducing auto crime; ongoing monitoring of claims trends and implementation of cost management initiatives; and working closely with industry partners to address cost pressures, e.g. the performance-based compensation model in the Collision Repair Industry Agreement, which helps manage repair cost pressures while maintaining the quality of repairs.
- Regular claims monitoring recently identified changing trends in bodily injury claims costs. ICBC is focused on implementing strategies aimed at managing these costs.

## Financial Markets

Like all insurers, ICBC holds investment assets to provide for unpaid claims costs and unearned premiums, and for retained earnings that can mitigate future volatility in insurance rates. In holding such assets, investment income is earned and contributes to the company's overall net income, helping to keep rates low and stable. This income is affected by the overall condition of the general investment market.

### Financial Markets

**Description of Sensitivities/Risks:**

- ICBC manages an investment fund of approximately $7.7 billion at cost, which provides for future claims costs and unearned premiums, and retained earnings that can help mitigate future volatility in insurance rates. A one percentage point fluctuation in return means a $77-$94 million change in investment income.

**Strategies:**

- ICBC's investment policy is governed by the "prudent person" standard. It addresses ICBC's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy, which is established by the Investment Committee of the Board and approved by the Board of Directors, is based on prudence and regulatory requirements, and provides guidelines for balancing the level of risk and return in ICBC's investment portfolio.
- ICBC follows a long term strategy and diversifies its investment holdings to manage income fluctuations.
- ICBC holds a conservative portfolio with the majority of monies invested in fixed income assets (e.g. bonds).

## Regulatory Processes

The British Columbia Utilities Commission (BCUC) provides regulatory oversight of Basic insurance rates and ensures that costs are appropriately allocated between ICBC's Basic and Optional insurance businesses. ICBC is supportive of this oversight as part of an open and transparent process for the setting of Basic insurance rates.

A new legislative and regulatory auto insurance framework has been established by the provincial government to create a common Optional insurance environment for ICBC and private insurers. ICBC had dedicated considerable resources to ensuring that it is prepared to operate within the final elements of the new framework, which comes into effect on June 1, 2007.

### Regulatory Processes

**Description of Sensitivities/Risks:**

- Legislative, regulatory or government policy changes can impact ICBC, including potential impacts to business systems and processes, corporate priorities, costs of service delivery (e.g. medical rates and benefits), and non-insurance services delivered by ICBC on behalf of the provincial government.
- The BCUC regulatory process is resource intensive and an order from the BCUC could have significant implications for ICBC.
- The BCUC's final decision on ICBC's 2007 Basic insurance rate will impact future years' financial performance.

**Strategies:**

- ICBC works with government to ensure that legislative, regulatory or policy changes that either directly or indirectly impact ICBC are effectively implemented. ICBC also works with stakeholders on an ongoing basis.
- Impacts on non-insurance services are managed through a Service Agreement between the provincial government and ICBC. The BCUC must consider non-insurance services as part of its review of ICBC's costs and Basic insurance rates.
- Building sustainable capacity and refining internal processes to effectively and efficiently meet the responsibilities associated with the BCUC regulatory process continues to be a focus for ICBC.

## Competitive Environment

Changing conditions in the Optional insurance market create the potential for increased competition and external factors stemming from competitor actions can impact market share. In addition, changes associated with the new legislative and regulatory auto insurance framework established by the provincial government for full implementation in June 2007 will impact ICBC's operations.

### Competitive Environment

**Description of Sensitivities/Risks:**

- Legislation passed in 2006 by the provincial government creates a common regulatory framework for private insurers and ICBC, and requires a separate Optional policy contract for ICBC coverages as well as data-sharing of aggregate Optional insurance statistical information amongst all competing providers in BC.

**Strategies:**

- ICBC monitors product profitability and develops strategies for improvement and competitive pricing models.
- The general direction is to build capacity to respond more quickly to Optional insurance market changes.
- ICBC had dedicated resources to ensuring that it is prepared to operate within the new legislative and regulatory auto insurance framework when it comes into effect on June 1, 2007.

## Need for Reinvestment and Evolution of Service Delivery

Like any business, ICBC needs to examine and renew the business capabilities of its workforce, systems and processes to maintain and improve its customer service and efficiency. ICBC must also continue to evolve its service delivery with a focus on the changing business and service needs. Moving forward, ICBC will continue to reinvest prudently to position the company for the future as business and customer needs evolve and workforce demographics and labour markets change.

### Need for Reinvestment and Evolution of Service Delivery

**Description of Sensitivities/Risks:**

- The highly competitive labour market will impact ICBC through factors such as increasing compensation costs and the ability to attract and retain the appropriate employees.
- In order to continue to operate efficiently and effectively, ICBC must also continue to evolve its service delivery with a focus on the needs of customers and leveraging technology to deliver services better and more efficiently.

**Strategies:**

- The four-year collective agreement signed in 2006 provides the opportunity to continue to work together to meet the service expectations of customers and for employees to share in the company's success.
- ICBC continues to ensure capital spending aligns with the corporate strategy and positions the company to meet customers' current and future needs.
- Technological advancements are monitored for potential applicability. Business systems and processes are updated as appropriate.

## Long Term Financial Strength of ICBC

Financial strength and stability continue to be a key focus for ICBC. At the time the minimum regulatory capital targets were set by the provincial government for ICBC in Special Direction IC2, the Corporation was well below the target for the total corporation. ICBC made considerable progress in the past several years in building its capital levels and will continue to build and maintain capital levels commensurate with risks.

### Long Term Financial Strength of ICBC

**Description of Sensitivities/Risks:**

- ICBC must meet and maintain regulated capital levels for Basic insurance, Optional insurance and the total corporation.
- Fluctuations in net income impact retained earnings and impact ICBC's ability to build and retain appropriate levels of capital.

**Strategies:**

- ICBC takes a disciplined approach to managing operating costs. Appropriately addressing claims costs is also a priority (see Automobile Crashes, Crime and Claims Costs).
- For 2005 and 2006, the provincial government issued direction letters for ICBC to transfer specified amounts of capital from Optional to Basic insurance. The transfers help achieve Basic insurance capital targets and help minimize Basic insurance rate increases.
- Corporate MCT levels are monitored on a regular basis to identify and manage emerging issues.

## Other Risks

In addition to the above, ICBC's risk management process identified additional potential corporate level risks that are actively monitored and mitigated. These risks and their mitigation strategies are outlined below.

### Business Interruption

**Description of Sensitivities/Risks:**

- Business interruption arising from labour disputes, technology issues or natural disasters may disrupt service levels for insurance, driver, and claims services.

**Strategies:**

- The Business Continuity Management program continues to integrate the plan within business areas to enable ICBC to provide critical services in the event of such an occurrence. In addition, back-up copies of data are moved to off-site storage, and testing of critical system recovery through a remote site is regularly completed.
- ICBC and its unionized employees negotiated a long-term collective agreement covering the period of July 1, 2006 to June 30, 2010.
- A high level pandemic influenza plan has been drafted and a review of applicable human resource policies, with triggers established for ICBC action, has been completed based on World Health Organization definitions of pandemic alert.

### Succession/Workforce Planning

**Description of Sensitivities/Risks:**

- ICBC faces the challenges of an aging workforce requiring reinvestment in people and training. Retention of corporate talent and planning for replacement of key positions are essential in meeting current and future business needs. This is particularly true in the highly competitive BC labour market. Lack of succession planning can result in the loss of the skills and knowledge that enable the achievement of corporate goals and objectives.

**Strategies:**

- ICBC's human capital plan is focused on a multi-pronged approach of recruitment, compensation, training and leadership development to attract, develop and retain talent.
- ICBC invests in employee training programs and develops succession plans for key positions.

## Access to Personal Information

### Description of Sensitivities/Risks:

- As part of both insurance and non-insurance businesses, ICBC maintains a significant amount of personal information regarding its customers, and deals with business partners and customers over the internet. Access to this information must be carefully managed and measures must be in place to guard against unauthorized access to or release of this data.

### Strategies:

- ICBC has data security measures in place, as well as a Code of Ethics and Information Systems Security Policies governing the access and use of corporate data. Direct access to ICBC databases by specified third party businesses is managed through access controls and formal information-sharing agreements.
- ICBC has undertaken a significant awareness campaign within the company and with our business partners on the importance of understanding customers' personal privacy.

## Customer Support

### Description of Sensitivities/Risks:

- ICBC's focus on customers is a key goal of the corporate strategy. Changes in service delivery, product pricing or design, ICBC programs, and evolving customer needs can impact customer satisfaction.

### Strategies:

- ICBC monitors customer service performance by measuring the percentage of satisfied customers for each major transaction type: insurance services, driver services, and claims services.
- ICBC communicates with the public and stakeholders to raise awareness and inform the public of ICBC's products and the value received.
- ICBC has policies and procedures to support fairness in all dealings with customers, including a FairClaim process to provide customers with additional information about decision-making and financial impacts in the claims process.
- Reviews of product offerings based on customer needs are done, as well as a focus on pricing to ensure stable and competitive prices.

## Catastrophic Loss

### Description of Sensitivities/Risks:

- Catastrophic loss can result from an earthquake or other major event.

### Strategies:

- In the event of losses resulting from catastrophes, ICBC has financial protection through a reinsurance policy that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits.
- In addition to protecting against individual catastrophic events, the reinsurance agreement protects the Corporation against abnormally large claims losses by limiting the amount for which the Corporation is liable in any single year.

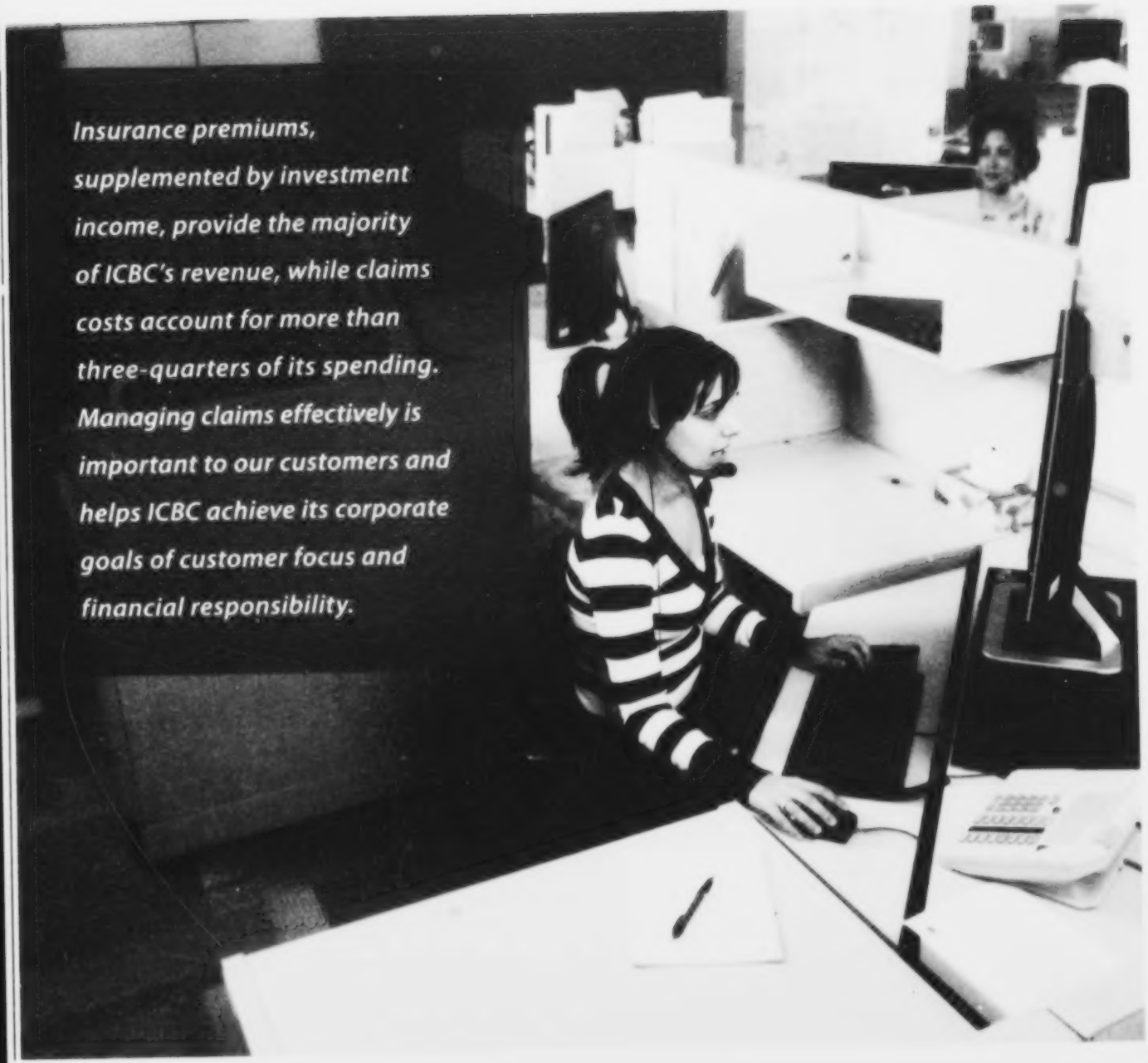
## Reputation

### Description of Sensitivities/Risks:

- On behalf of the provincial government, ICBC is the sole provider of driver licences in British Columbia. If a licence is fraudulently obtained it could result in public safety or identity fraud issues.

### Strategies:

- This risk is mitigated by existing operational processes, which include updated licensing fraud precautions implemented in 2005.
- ICBC works with the provincial government to maintain and enhance the functionality and security of provincial driver licences.



*Insurance premiums, supplemented by investment income, provide the majority of ICBC's revenue, while claims costs account for more than three-quarters of its spending. Managing claims effectively is important to our customers and helps ICBC achieve its corporate goals of customer focus and financial responsibility.*

# Management Discussion and Analysis

Continued strong investment income and higher insurance premiums earned, combined with prudent management of operating costs and a positive adjustment to deferred premium acquisition costs (DPAC), helped offset increasing claims costs. As a result, ICBC's 2006 net income of $350 million was $152 million higher than 2005 net income of $198 million.

- Premiums earned were $3.3 billion in 2006, a $140 million increase over 2005. This results mainly from growth in insured vehicles. In 2006, the number of policies sold increased by 95,000 or 3.1% over 2005. In addition, there was a 6.5% rate increase in Basic insurance rates effective March 15, 2006. These increases were partially offset by the financial impact of the 2005 reductions in Optional insurance rates.
- Claims incurred costs, including prior years' claims adjustments, were $2.6 billion in 2006. This represents a 4.7% increase over 2005. The main reason for this increase is the continued deterioration of injury claims costs, mainly prior years' claims. Another factor was the increase in the number of claims reported from 924,000 in 2005 to 947,000 in 2006. Adverse driving conditions early and late in the year contributed to an increase in the number of claims reported in 2006, reversing the trend of recent years where the number of claims had been gradually decreasing.
- Premium acquisition costs were $186 million lower than 2005 mainly due to a positive adjustment to DPAC (see description on page 42). Adjustments are made to the deferred balance of acquisition costs to reflect only those amounts that are actuarially determined to be recoverable from the underlying business. The 2006 Basic rate increase allowed $87 million more in acquisition costs to be deferred. This compares to a write down of $114 million in acquisition costs in 2005, for a total year-over-year change of $201 million in the Statement of Operations.
- Investments continue to perform well and investment income was $512 million in 2006. Gains were lower than in 2005 due to rising interest rates resulting in losses on bonds held; the performance of bonds was exceptionally strong in 2005.
- Operating costs continue to be prudently managed. In 2006, operating costs (which excludes premium taxes and commissions) were $512 million, or about $3 million lower than in 2005. The decrease is mainly due to the March 31, 2006 completion of ICBC's three-year funding agreement for commercial vehicle compliance operations transferred to the provincial government in 2003. The 2006 costs also include compensation increases resulting from the successfully negotiated collective bargaining agreement and increases for non-bargaining unit employees. Despite continuing upward cost pressures, operating cost increases were held to moderate levels.

ICBC operates as an integrated company in the provision of Basic and Optional insurance products and reports on its financial and performance results on this integrated basis. Integrated operations provide benefits to ICBC's customers such as ease of service and savings achieved through economies of scale. The $350 million net income for 2006 is based on net income from the Optional insurance business of $212 million and $138 million from the Basic insurance business. Income from the Optional insurance business reflects the financial impact of the 2005 reduction in Optional insurance rates and continued growth in sales of Optional coverages. The income from the Basic insurance business reflects the rate change in 2006 which also contributed to a positive adjustment to deferred premium acquisition costs. Detailed financial information on ICBC's Basic and Optional lines of business is included in the 2006 financial statements (note 14) included in this annual report.

## Premiums

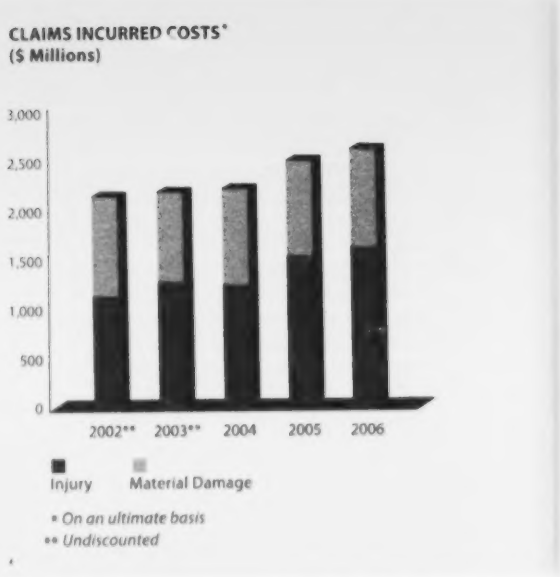
On July 13, 2006 the British Columbia Utilities Commission (BCUC) confirmed a 6.5% increase in the premium rate for the Basic insurance business, effective March 15, 2006. Rates for Optional insurance were unchanged in 2006. Overall Optional premiums increased during 2006 as a result of increased sales, which was partially offset by the financial impact of the 2005 decrease in Optional insurance rates. In addition, there was a 3.1% increase in the number of policies sold. Based on these factors, total premiums earned increased to $3.3 billion from $3.1 billion in 2005.

## Service Fees

Service fees primarily comprise interest and other fees received from policyholders who have chosen to finance their insurance premiums over a period of six or twelve months. 2006 was the first full year in which most policyholders were on the ICBC Payment Plan. In 2006, service fees increased by $9.7 million over 2005. While the financing rates for policyholders were similar to the previous program, the costs of providing the ICBC Payment Plan are lower, resulting in an increase in net service fees retained by ICBC.

## Claims

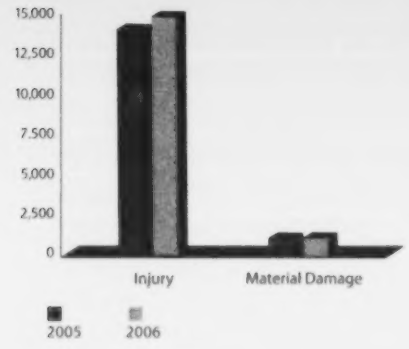
Claims incurred costs account for approximately three-quarters of ICBC's total expenditures. Claims incurred costs are the amounts which are expected to be ultimately paid on all claims in the year and are comprised of reported claims, unreported claims, and an estimate of the adjusting costs to settle all outstanding claims. Claims incurred costs are impacted by the number of claims and the ultimate average cost of claims. In 2006, claims incurred costs were $2.6 billion, which is an increase of $118 million or 4.7% over 2005. The increase is based on a $100 million increase in current year claims costs and an $18 million increase in adjustments for prior years' claims costs.




The number of claims is influenced by factors that include driving behaviour, driving experience, weather, and the effectiveness of loss management programs. The majority of claims incurred within a year are generally also reported within the same year. For 2006, the number of claims reported during the year and expected to be reported in a future year is 949,000 and is 2.3% higher than in 2005. This is partially attributable to the increase in the number of insured vehicles during the year and adverse driving conditions early and late in the year.

Average cost of claims is influenced by factors such as inflation, settlement awards, legal costs, medical costs, vehicle repair costs, and independent adjusting costs. The overall average cost of claims in 2006 increased over 2005, reflecting a 5.6% increase in the average cost of injury claims and a 1.5% increase in the average cost of all material damage claims. The increase in the average cost of injury claims is due to the continuing trend of increasing bodily injury claims costs and is attributable to increasing costs in the areas of general damages, future wage loss, and legal costs. The increase in the average cost of material damage claims is mainly due to inflation and other cost pressures.

**AVERAGE COST OF CLAIMS ***
**($)**

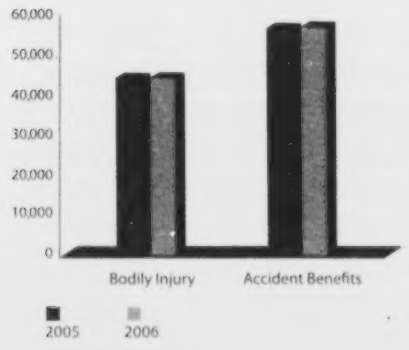



* *On an ultimate basis*

## Injury Claims

Injury claims costs account for approximately 62% of claims incurred costs, and include bodily injury claims, accident benefits and death benefits. Injury claims costs include amounts for pain and suffering, future care, past and future wage loss, and external claims handling expenses. Within injury claims, over 90% of all injury claims costs are for bodily injury claims. In 2006, the number of bodily injury claims increased slightly over 2005. The average cost of bodily injury claims increased by 7.6% in 2006.

**NUMBER OF INJURY CLAIMS ***
(Major Categories)

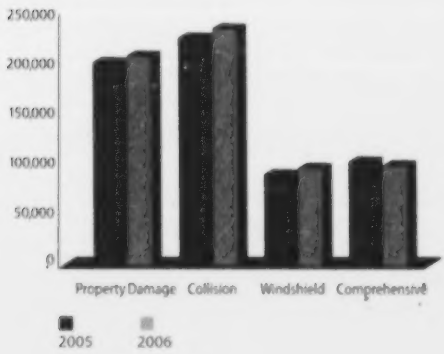



* *On an ultimate basis*

## Material Damage (Non-Injury) Claims

The main categories of non-injury or material damage claims are property damage, collision, comprehensive, and windshield claims. In 2006, there was a 2.6% increase in the number of material damage claims, which is impacted by the increase in the number of insured vehicles. The average cost of all material damage claims was 1.5% higher than in 2005, mainly due to inflation and other cost pressures, which have been contained through mutually beneficial arrangements with ICBC business partners.

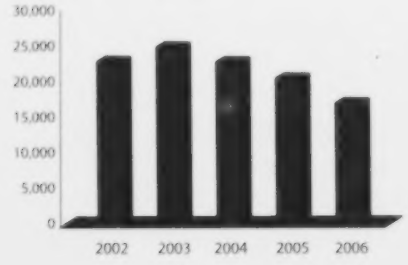
**NUMBER OF MATERIAL DAMAGE CLAIMS ***
(Major Categories)




* *On an ultimate basis*

Within comprehensive claims, in 2006, ICBC paid out more than $100 million in auto crime related claims costs, including theft of vehicles, theft from vehicles, and vandalism claims. Theft of vehicles accounts for more than 60% of auto crime related claims costs. As shown in the following chart, the number of auto theft claims decreased by 16.9% in 2006, following a 9.9% decrease in 2005. The expansion of the Bait Car program, the Integrated Municipal Provincial Auto Crime Team (IMPACT), and partnerships with community agencies have been significant contributors to the decline in automobile thefts, along with the greater use of vehicle immobilizers. The reduction in auto crime partially offsets claims cost pressures related to inflationary increases and changes in vehicle design.

**TOTAL THEFT OF VEHICLES**
(Number of Claims Reported)



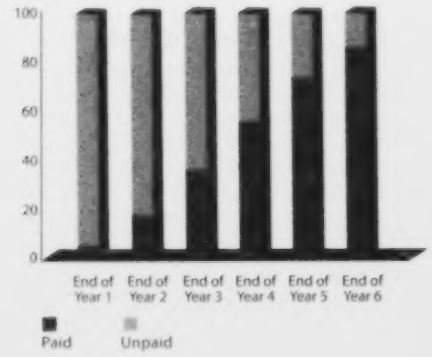

## Unpaid Claims and Prior Years' Claims Adjustments

The unpaid claims reserve is money set aside in anticipation of future claims payments relating to claims that have already happened. The adequacy of this liability is reviewed and adjusted periodically throughout the year based on revised actuarial estimates. Adjustments to the prior years' claims reserve are due to the re-estimation of future claims costs for claims in progress and those incurred in prior years but not reported. ICBC commissions the services of an external actuary to provide an independent assessment of the unpaid claims reserves and, as part of its annual audit of the financial results, the external auditor reviews the adequacy of the unpaid claims reserves.

The estimate of the unpaid claims at the end of 2006 was $5.4 billion; however, estimates for these future claims costs can change significantly due to the time frame in which certain types of claims are settled. Unpaid bodily injury claims costs account for nearly three-quarters of total unpaid claims costs and generally take several years to settle.

As illustrated in the following chart, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence with a greater proportion of the costs being an estimate of claims costs payable in future years. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined. This results in adjustments to the unpaid claims reserve to reflect the most current forecast of claims costs. During 2006, the estimated costs of settling claims for 2005 and prior years was adjusted as a result of new information. The re-estimation resulted in a net $99 million prior years' claims costs increase for 2006, mainly relating to claims from 2002 to 2005.

**BREAKDOWN OF BODILY INJURY COSTS**
(Typical Accident Year)
**(%)**



## Loss Management

ICBC invests in loss management programs to help prevent crashes, auto crime and fraud. This contributes to low and stable rates for customers. ICBC works with the provincial government, municipalities, community and business organizations, and the police in delivering loss management programs aimed at reducing crashes and other losses. In 2006, the Corporation invested a total of $48.4 million in loss management programs described below.

Through its Road Improvement Program, ICBC works with road authorities such as the Ministry of Transportation and local municipal governments to reduce crashes at high-risk road locations and share the costs of road safety engineering programs. ICBC requires a minimum 50% Internal Rate of Return on investment within two years or five years, depending on the type of road improvement project. In 2006, ICBC's total investment in the Road Improvement Program was approximately $7.5 million.

ICBC works with the Ministry of Public Safety and Solicitor General and, in 2004, a new five-year partnership with the Ministry was implemented to provide funding support for enhanced traffic law enforcement. In 2006, payments were approximately $17 million.

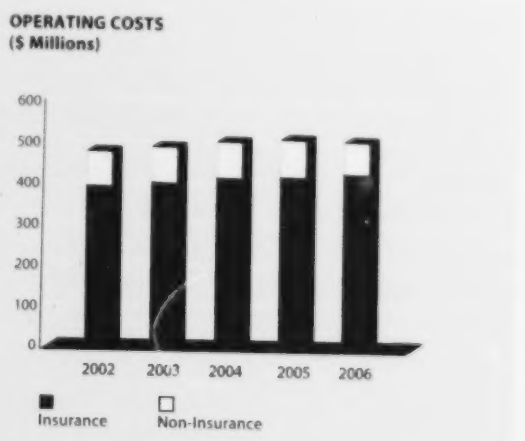
Fraud is not a victimless crime as it unnecessarily increases the costs of insurance for all customers. ICBC's zero tolerance policy is supported by a Fraud Prevention and Investigation department that administers ongoing programs for the prevention and detection of fraud, including investigating potential cases of material damage and bodily injury fraud, driver's licence and identity fraud, staged accidents and vendor fraud. BC motorists saved more than $75 million in 2006 due to ICBC anti-fraud programs. Savings are based on the estimated value of fraudulent claims that were denied, money recovered, and savings generated through fraud prevention.

## Operating Costs

Operating costs are defined as costs (compensation and other costs) required to operate the insurance and non-insurance business with the exception of claims payments, commissions, and premium taxes. ICBC's cost structure has remained relatively stable despite continual cost pressures arising from business improvement changes, technology and system upgrades, contractual arrangements, general inflationary increases, and growth in demand for services. ICBC continues to work with business partners and has been successful in renewing contracts at competitive rates. ICBC also seeks innovative ways to form mutually beneficial working business relationships.

Included in total operating costs are non-insurance costs, which consist of costs for administering driver licensing, vehicle licensing and registration, and government fines collection. Non-insurance costs are funded from Basic insurance premiums and totaled $96.8 million in 2006 (representing 3.0% of premiums earned). This is $12.1 million less than in 2005, primarily as a result of conclusion of ICBC's payments to the provincial government for commercial vehicle compliance ($6.2 million was paid for this purpose in 2006).

ICBC continued to focus on managing operating costs, and ended the year with operating costs of $512 million, which is a decrease of $3 million from 2005. The decrease is mainly attributable to the $18.6 million decrease in funding for commercial vehicle compliance operations, which was partially offset by compensation cost increases associated with the settlement of the four-year collective agreement, and other general expense increases.



## Acquisition Costs

Acquisition costs represent the amounts paid to brokers for the sale of ICBC's insurance products, and for administering driver and vehicle licensing transactions. Acquisition costs also include premium taxes paid to the provincial government. Consistent with the recognition of premium revenue earned over the policy duration, commissions and premium taxes are expensed on a similar basis. At year-end, the unexpended portion of these costs are potentially deferred and reflected as deferred premium acquisition costs (DPAC). DPAC is written down to the recoverable amount when future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums. Conversely, a positive adjustment, up to the recoverable amount, is made when unearned premiums are expected to exceed future claims and related expenses. In 2005, DPAC was written down by $114 million as anticipated costs exceeded unearned premiums by this amount. In 2006, an additional $87 million in premium acquisition costs are being deferred as unearned premiums exceed anticipated costs. Together, DPAC adjustments caused a year over year variance of more than $200 million in net income.

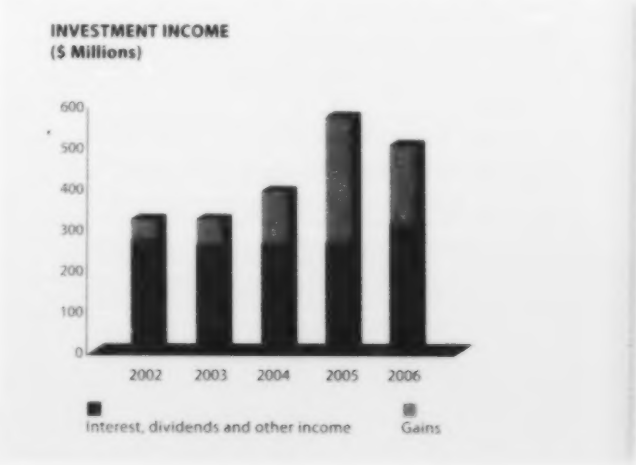
## Investments

ICBC has an investment portfolio of approximately $8.3 billion on a market value basis at the end of 2006. Funds available for investment purposes come primarily from the reserves set aside for unpaid claims, unearned premiums, and retained earnings. At the end of 2006, ICBC's investment portfolio (at cost) totaled $7.7 billion and represents approximately 86% of the Corporation's assets. ICBC has a conservative investment portfolio concentrated in fixed income securities comprised of highly rated bonds, money market securities, and mortgage instruments (75% of total portfolio holdings). Equities and real estate (23% and 2% of total portfolio holdings, respectively) comprise the remainder of the portfolio.

As of December 31, 2006, ICBC had unrealized investment gains of approximately $581 million compared to approximately $399 million at December 31, 2005.

## Investment Income

In 2006, ICBC's investment income was $512 million or a decrease of $67 million from 2005. Investment markets and returns remained strong. Interest and dividend income were higher due to higher yields and larger portfolio balances. Investment gains were lower as equity gains in 2006 were not at the same level as experienced in 2005. In addition, rising interest rates resulted in investment losses from the bond portfolio in 2006 compared to investment gains experienced in 2005. Overall, this equates to an accounting investment return of 6.9% compared to 8.0% in 2005. The chart below shows investment income over the last five years.




## Retained Earnings

With ICBC's 2006 net income of $350 million, retained earnings increased to $1,507 million as at December 31, 2006. Retained earnings are required to provide the ability to help absorb unexpected significant increases in claims costs and to maintain a stable rate environment for ICBC's customers. In the private insurance industry, the adequacy of retained earnings or capital base is an important factor in assessing the financial stability of a company and is closely monitored by regulators.

The common industry method used to measure financial stability is a risk-based capital adequacy framework which assesses assets, policy liabilities, and other potential liabilities to determine capital levels. Under this framework, property and casualty insurers are required to meet a

capital available to capital required test known as the Minimum Capital Test (MCT).

In 2004, the provincial government issued Special Direction IC2, which set out minimum target levels of capital for ICBC and the timeframes in which these must be achieved. Special Direction IC2 requires ICBC to achieve by December 31, 2014, and to maintain after that date, capital for the total corporation equal to 110% of MCT. In addition, ICBC is required to achieve by the same date, and maintain after that date, capital equal to 100% of MCT for the Basic insurance business. For the Optional insurance business, ICBC is required to achieve by December 31, 2010, and maintain after that date, capital equal to at least 200% of MCT.

In October 2005, ICBC received direction from the provincial government to transfer $530 million of capital from ICBC's Optional insurance business to its Basic insurance business. This direction was intended to ensure that the Basic insurance business achieve at least its legislated minimum capital target as at December 31, 2005.

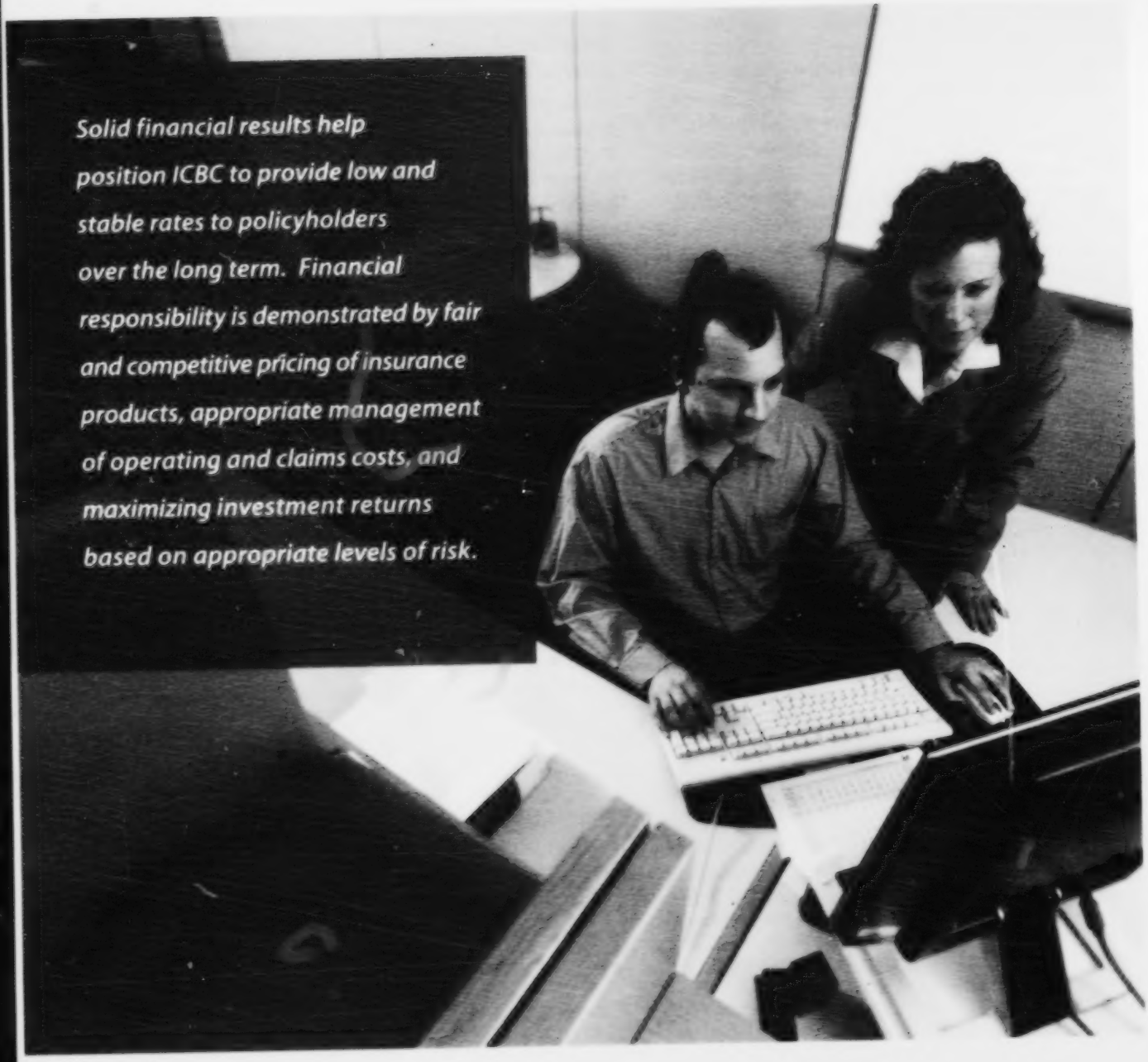
Bodily injury claims costs increased significantly throughout 2005 and, as a result, the October 2005 capital transfer was not sufficient to bring Basic capital levels up to the minimum capital target. Accordingly, ICBC received further direction from the provincial government to transfer $100 million of capital from ICBC's Optional insurance business to its Basic insurance business, effective December 31, 2006. ICBC complied with this direction and, including this amount, capital for the Basic insurance business was equal to 107% of MCT at year end, which slightly exceeds the minimum regulatory target. For the Optional insurance business after the transfer, capital is equal to 231% of MCT at year end, which is in excess of the minimum capital target set out in Special Direction IC2. At December 31, 2006, ICBC's total corporate capital of 148% of MCT exceeds the minimum regulatory capital level set out by Special Direction IC2.

In addition to Special Direction IC2 and the minimum capital levels prescribed therein, ICBC has established policies regarding risk-based operating levels of capital and must also consider the decisions of the British Columbia Utilities Commission (BCUC), its regulator for Basic insurance. In the July 2006 decision on ICBC's 2006 Basic insurance rates, the BCUC expressed concern that the minimum regulatory capital target for Basic operating levels of capital was insufficient to provide adequate protection to policyholders. To address this, in its 2007 revenue requirements application to the BCUC, ICBC has proposed a long-term management Basic target equal to 130% MCT to be achieved by 2027. ICBC has also established a total corporate capital target equal to 150% MCT.

Similarly, for Optional insurance ICBC has risk-based management targets above the minimum regulatory levels. Currently, ICBC has not reached the management targets and will continue to take this into consideration in future revenue requirements.

## Capital Expenditures

While ICBC's infrastructure required limited investment in capital expenditures in the past few years, higher investments in capital will be required in the future in order to maintain or replace aging infrastructure. In 2006, ICBC incurred $111.3 million in capital expenditures, relating to technology enhancements and facilities costs.



*Solid financial results help position ICBC to provide low and stable rates to policyholders over the long term. Financial responsibility is demonstrated by fair and competitive pricing of insurance products, appropriate management of operating and claims costs, and maximizing investment returns based on appropriate levels of risk.*

# Management's Responsibility for Financial Statements

## Scope of Responsibility

Management prepares the accompanying consolidated financial statements and related information and is responsible for their integrity and objectivity. The statements are prepared in conformity with Canadian generally accepted accounting principles. These consolidated financial statements include amounts that are based on management's estimates and judgements, particularly our reserves for unpaid claims. We believe that these statements present fairly the Corporation's financial position, results of operations, and cash flows, and that the other information contained in the annual report is consistent with the consolidated financial statements.

## Internal Controls

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors, who independently review and evaluate these controls. There is a quarterly risk assessment process, the results of which influence the development of the internal audit program. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted. We recognize the inherent limitations in all control systems and believe our systems provide an appropriate balance between costs and benefits desired. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

## Board of Directors and Audit Committee

The Audit Committee, composed of members of the Board of Directors, oversees management's discharge of its financial reporting responsibilities. The Committee recommends for approval to the Board of Directors the appointment of the external auditors and the external actuaries, and fee arrangements. The Committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors to discuss auditing, financial reporting, and internal control matters. The Audit Committee receives regular reports on the internal audit results and evaluation of internal control systems; and it reviews and approves major accounting policies including alternatives and potential key management estimates or judgements. Both internal and external auditors have access to the Audit Committee without management's presence. The Audit Committee has reviewed these financial statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

## Independent Auditors and Actuary

Our independent auditors, PricewaterhouseCoopers LLP, have audited the financial statements. Their audit was conducted in accordance with Canadian generally accepted auditing standards, which includes the consideration of our internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

Eckler Partners Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of the Corporation's policy liabilities which include provision for claims and claims expenses, unearned premiums and deferred premium acquisition costs. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements. In performing the evaluation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.

Paul Taylor

President and Chief Executive Officer
March 1, 2007

Geri Prior

Chief Financial Officer
March 1, 2007

# Auditors' Report

The Honourable John Les
Minister of Public Safety and Solicitor General
Minister Responsible for the Insurance Corporation of British Columbia
Province of British Columbia

We have audited the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2006 and the consolidated statements of operations, retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

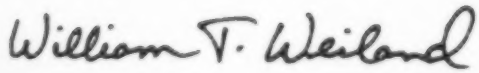
Chartered Accountants

Vancouver, British Columbia
March 1, 2007

# Actuary's Report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2006 and their changes in its consolidated statements of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Partners Ltd.

Vancouver, British Columbia
March 1, 2007

# Consolidated Statement of Financial Position
# As at December 31, 2006

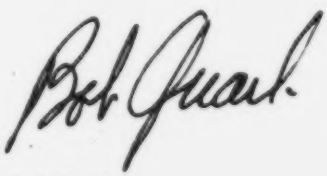
| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| **ASSETS** | | |
| Cash and investments (note 3) | $ 7,687,979 | $ 7,167,078 |
| Accrued interest | 64,389 | 58,388 |
| Amount recoverable from reinsurers (notes 5 & 6) | 29,416 | 21,825 |
| Premiums and other receivables (note 7) | 890,144 | 661,267 |
| Deferred premium acquisition costs and prepaid expenses (note 10) | 145,920 | 45,933 |
| Accrued pension benefits (note 8) | 58,045 | 48,947 |
| Property and equipment (note 4) | 79,994 | 82,811 |
| | $ 8,955,887 | $ 8,086,249 |
| **LIABILITIES AND RETAINED EARNINGS** | | |
| **LIABILITIES** | | |
| Cheques outstanding | $ 54,153 | $ 45,497 |
| Accounts payable and accrued charges | 209,127 | 197,683 |
| Accrued post-retirement benefits (note 8) | 100,375 | 86,721 |
| Premiums and fees received in advance | 49,504 | 48,916 |
| Unearned premiums | 1,615,747 | 1,497,176 |
| Provision for unpaid claims (note 5) | 5,419,733 | 5,053,108 |
| | 7,448,639 | 6,929,101 |
| **RETAINED EARNINGS** | 1,507,248 | 1,157,148 |
| | $ 8,955,887 | $ 8,086,249 |

Contingent liabilities and commitments (note 13)

*The accompanying notes are an integral part of these financial statements.*

Approved by the Board

T. Richard Turner
Chair, Board of Directors



Bob Quart
Vice-Chair, Board of Directors

# Consolidated Statement of Operations
# For the year ended December 31, 2006

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| **REVENUES** | | |
| **Net Premiums Written** | | |
| Vehicle | $ 3,357,961 | $ 3,132,116 |
| Driver | 17,466 | 15,156 |
| | $ 3,375,427 | $ 3,147,272 |
| **Net Premiums Earned** | | |
| Vehicle | $ 3,240,310 | $ 3,103,658 |
| Driver | 16,546 | 13,754 |
| | 3,256,856 | 3,117,412 |
| **Service Fees** | 47,154 | 37,479 |
| **TOTAL EARNED REVENUES** | 3,304,010 | 3,154,891 |
| **CLAIMS AND OPERATING COSTS** | | |
| Net claims incurred during the year (note 5) | 2,544,396 | 2,444,515 |
| Prior years' claims adjustments (note 5) | 99,043 | 80,662 |
| Net claims incurred (note 5) | 2,643,439 | 2,525,177 |
| Claims services | 252,657 | 239,563 |
| Road safety and loss management services | 48,357 | 47,679 |
| | 2,944,453 | 2,812,419 |
| Operating costs – insurance (note 9) | 132,816 | 136,561 |
| Premium taxes and commissions (note 10) | 292,171 | 478,476 |
| | 3,369,440 | 3,427,456 |
| **UNDERWRITING LOSS** | (65,430) | (272,565) |
| Investment income (note 3c) | 512,349 | 579,436 |
| **INCOME – INSURANCE OPERATIONS** | 446,919 | 306,871 |
| **NON-INSURANCE OPERATIONS** | | |
| Provincial licences and fines (note 11) | 493,176 | 469,021 |
| Licences and fines transferable to the Province (note 11) | 493,176 | 469,021 |
| Operating costs – non-insurance (note 9) | 78,128 | 91,248 |
| Commissions (note 10) | 18,691 | 17,699 |
| | 589,995 | 577,968 |
| **LOSS – NON-INSURANCE OPERATIONS** | (96,819) | (103,947) |
| **NET INCOME FOR THE YEAR** | $ 350,100 | $ 197,924 |

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Statement of Retained Earnings
# For the year ended December 31, 2006

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| **RETAINED EARNINGS** | | |
| Beginning of year | $ 1,157,148 | $ 959,224 |
| **Net income for the year** | 350,100 | 197,924 |
| End of year | $ 1,507,248 | $ 1,157,148 |

*The accompanying notes are an integral part of these financial statements.*

# Consolidated Statement of Cash Flows
# For the year ended December 31, 2006

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Cash received for:** | | |
| Vehicle premiums and others | $ 3,490,080 | $ 2,881,658 |
| Licence fees | 472,043 | 450,145 |
| Social service taxes | 107,472 | 90,204 |
| | 4,069,595 | 3,422,007 |
| Collection for receivables, subrogation, and driver penalty point premiums | 151,501 | 151,659 |
| Salvage sales | 55,293 | 54,901 |
| Interest | 289,068 | 281,894 |
| Dividends and other investment income | 40,231 | 23,490 |
| | 4,605,688 | 3,933,951 |
| **Cash paid to:** | | |
| Claimants or third parties on behalf of claimants | (2,372,010) | (2,225,935) |
| Province of BC for licence fees, fines, and social service taxes collected | (615,876) | (573,966) |
| Suppliers of goods and services | (203,334) | (234,749) |
| Employees for salaries and benefits | (355,270) | (347,590) |
| Agents for commissions | (260,759) | (248,507) |
| Policyholders for premium refunds | (286,932) | (317,885) |
| Province of BC for premium taxes | (140,392) | (148,762) |
| Other | (354) | (327) |
| | (4,234,927) | (4,097,721) |
| Cash flow from (used in) operating activities | 370,761 | (163,770) |
| **CASH FLOW FROM (USED IN) INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (7,230,813) | (6,734,100) |
| Proceeds from sales of investment securities | 6,847,117 | 6,411,327 |
| Securities sold under repurchase agreements | 133,979 | 458,505 |
| Payments to vendors of property and equipment | (12,198) | (13,161) |
| Proceeds from sale of property and equipment | 616 | 65 |
| Cash flow (used in) from investing activities | (261,299) | 122,636 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR** | 109,462 | (41,134) |
| Cash and cash equivalents, beginning of year | 152,769 | 193,903 |
| Cash and cash equivalents, end of year | $ 262,231 | $ 152,769 |
| **REPRESENTED BY:** | | |
| Cash and money market securities (note 3) | $ 316,384 | $ 198,266 |
| Cheques outstanding | (54,153) | (45,497) |
| | $ 262,231 | $ 152,769 |

*The accompanying notes are an integral part of these financial statements.*

# Notes to Consolidated Financial Statements

## For the year ended December 31, 2006

### 1. PURPOSE

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation, not subject to income taxes under the *Income Tax Act (Canada)*, incorporated in 1973 and continued under the *Insurance Corporation Act*, R.S.B.C. 1996 chapter 228. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Motor Vehicle) Act*, and is also responsible for non-insurance services under the *Insurance Corporation Act and Motor Vehicle Act*. Non-insurance services include vehicle licensing, registration, and issuance of driver licences. As a result of amendments to the *Insurance Corporation Act* in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to universal compulsory automobile insurance rates and services (note 14).

Universal compulsory automobile insurance (Basic) includes the following coverage: $200,000 third party legal liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss, $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside of the Province of British Columbia (the Province). The Corporation also offers insurance in a competitive environment (Optional), which includes the following coverages: extended third party legal liability, comprehensive, collision, loss of use, and others. The Corporation's Basic and Optional insurance products are distributed by approximately 900 independent brokers located throughout the Province. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary auto insurer.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of reporting

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles as required by the *Insurance Corporation Act*. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies. As required by the *Insurance Corporation Act*, the Corporation reports the revenues and expenses attributable to universal compulsory automobile insurance and non-insurance separately from the other operations of the Corporation (note 14).

The following are the significant accounting policies adopted by the Corporation:

#### Premiums earned

The Corporation recognizes vehicle and driver premiums, net of reinsurance, evenly over the term of each vehicle policy written or the driver's penalty point year, respectively. Premium refunds are reversed accordingly, against premiums earned. Unearned premiums are the portion of premiums relating to the unexpired term.

#### Reinsurance

The Corporation reflects reinsurance balances on the consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on the consolidated statement of operations on a net basis to indicate the results of its retention of premiums written.

### Deferred premium acquisition costs

Deferred premium acquisition costs, represented by commissions and premium tax expenses, relate directly to the writing of policies and, to the extent recoverable from unearned premiums, are deferred and amortized to income over the term of the related policies. An actuarial evaluation is performed to determine the amount allowable for deferral. The method followed in determining the deferred premium acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves on a net corporate basis in the statement of financial position.

### Provision for unpaid claims

The provision for unpaid claims and expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claims expenses, and is gross of reinsurance recoverable. Claims liabilities are established according to accepted actuarial practice in Canada. They are carried on a discounted basis (note 5) and therefore reflect the time value of money, and include a provision for adverse deviations (PFAD).

To recognize the uncertainty in establishing best estimates, the Corporation includes PFAD in the assumptions relating to claims development, reinsurance recoveries and related future investment income. The PFAD included in the unpaid claims consists of the three elements, as set out in the Standards of Practice of the Canadian Institute of Actuaries: a claims development portion that reflects considerations relating to the Corporation's claims practices, the underlying data and the nature of the lines of business written; a reinsurance recovery portion that reflects considerations relating to the ceded claims ratio and potential problem reinsurers; and thirdly, a portion for the investment return rate that reflects uncertainty in the investment portfolio yield, the investment climate in general and the rate at which claims are paid. The margins used are determined by evaluating the above considerations.

The margin for claims development is a percentage of the unpaid claims excluding the provision for adverse deviations. The margin for recovery of reinsurance ceded is a percentage of the amount deducted on account of reinsurance ceded in calculating the unpaid claims without provision for adverse deviations. The margin for investment return rate is a deduction from the expected rate of return per annum.

As with any insurance company, the provision for unpaid claims is an estimate subject to random volatility which could be material in the near term. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, timing of claims payments, the recoverability of reinsurance and future rates of investment return. All changes to the estimate are recorded as incurred claims and prior years' claims adjustments in the current period. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

The estimation of claims development involves assessing the future behaviour of claims, taking into consideration the consistency of the Corporation's claims handling procedures, the amount of information available, and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates will be. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The ultimate cost of long settlement liability claims is challenging to predict for several reasons, including some claims not being reported until many years after a policy term, or changes in the legal environment. Provisions for such difficult to estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sum payments (note 13a).

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims and other liabilities.

**Investments and investment income**

Bonds are valued at amortized cost with any premium or discount on purchase being deferred and amortized over the average term to maturity. Mortgages are valued at principal amounts adjusted to reflect any principal repayments. Equities are valued at cost. Real estate held for investment consists of income-producing properties, which are recorded at cost less accumulated amortization and provision for impairment in value (note 3).

Income on interest-bearing securities is accrued daily. Dividends on equity investments are recognized as income on their payment dates. Capital gains and losses on bonds, equities, and other investments are included in income in the period realized.

If the value of an investment suffers a loss in value that is other than temporary, the investment is adjusted to the estimated realizable value with the adjustment being included in the consolidated statement of operations.

The Corporation also participates in the sale and repurchase of Government of Canada, Provincial and U.S. Treasury bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. These sale and repurchase arrangements are accounted for as secured financings. The repurchase obligation has been recorded against the carrying value of these bonds (note 3). The difference between the sale price and the agreed repurchase price on a repurchase contract is recorded as interest expense.

**Hedging and derivative instruments**

A derivative financial instrument derives its value from the value of other financial instruments. The Corporation uses derivative financial instruments to hedge interest rate risk and currency risks associated with its investment portfolio. Interest rate swaps are used to create a hedge to match a liability or an asset, and may contain a cross-currency component. Interest rate swaps involve the exchange of fixed and floating interest rate payments based on a notional amount. Cross-currency interest rate swaps involve the exchange of both principal and fixed and floating interest rate payments in two different currencies.

The Corporation uses basis swaps and forward foreign exchange contracts to hedge foreign exchange risk. Basis swaps involve the exchange of principal and interest payments in two different currencies. ICBC uses short-term forward foreign exchange contracts to fix the rate of exchange of expected future foreign currency cash flows.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes. Specific swap derivatives have been designated as hedging items that qualify under Accounting Guideline 13 (AcG-13) *Hedging Relationships* issued by the Canadian Institute of Chartered Accountants (CICA).

For purposes of meeting the requirements of AcG-13, all hedges are hedging relationships that have been designated, and documented detailing the risk management objective and strategy for undertaking the hedge. The documentation specifically identifies the asset or liability being hedged, the type of derivative used, and the effectiveness of the hedge. All hedges are fair value hedges as they are used to hedge changes in interest rate risk. Also, there is a formal assessment at the inception of the hedge and on an ongoing basis as to whether the derivatives used in the hedges are highly effective in offsetting changes in fair values or cash flows of hedged items throughout the whole relationship.

The income or expense resulting from the derivative transactions is included in interest income when the hedged item is recognized in earnings. In the event that the hedging relationship is no longer effective, the resulting realized or unrealized gain or loss from a swap would be recognized in the consolidated statement of operations as part of investment income. The associated derivative instrument would be subsequently recognized in the consolidated statement of financial position at fair value.

### Pensions and post-retirement benefits

The cost of pension and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, compensation levels, retirement ages of employees and expected healthcare costs.

The expected return on plan assets is calculated using the expected long-term rate of return on plan assets and the fair value of the assets.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the expected average remaining service period of active employees.

The transitional asset, created when the Corporation adopted the recommendations of CICA Handbook Section 3461 in 2000, is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

Certain employees, formerly of the Motor Vehicle Branch, belong to the BC Public Service Pension Plan. Funding to this plan is accounted for on a cash basis.

### Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Software development costs, which are comprised of labour and material costs for design, construction, testing, implementation and other related costs, are capitalized for major infrastructure projects expected to be of continuing benefit to the Corporation, or expensed where the potential future benefits are uncertain or not quantifiable.

Amortization is provided on a straight-line basis which will amortize the cost of each asset over its estimated useful life at the following annual rates: buildings 5-10%, furniture and equipment 10-33%, and software 10-33%. Leasehold improvements are amortized over the term of each lease.

### Cash and cash equivalents

For purposes of the consolidated statement of cash flows, the Corporation considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty, net of outstanding cheques, and money market securities as equivalent to cash.

### Translation of foreign currencies

Foreign currency investments are translated at exchange rates at the date of purchase. Other foreign currency assets and liabilities considered monetary items are translated at exchange rates in effect at the year end date. Foreign currency revenues and expenses are translated at transaction date exchange rates. Exchange gains and losses are included in the determination of net income.

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The more subjective of such estimates are provisions for unpaid claims, provisions for doubtful accounts, and deferred premium acquisition costs. Management believes its estimates to be appropriate; however, actual results may be significantly different from these estimates and would be reflected in applicable future periods.

**New accounting pronouncements**

Effective January 1, 2007, the Corporation adopted the CICA standards for the recognition and valuation of financial assets and liabilities, including Section 1530, *Comprehensive Income;* Section 3855, *Financial Instruments – Recognition and Measurement;* and Section 3865, *Hedges.*

Under this accounting policy change, bonds, equities and deriviative instruments (note 3) will be valued at fair value on the Consolidated Statement of Financial Position. Unrealized gains and losses on investments that are classified as available for sale will be recorded in a separate component of equity, called accumulated other comprehensive income. Realized gains and losses relating to these investments, including any provisions for impairment, if necessary, will continue to be recorded in the Consolidated Statement of Operations. The financial results of prior periods will not be restated.

## 3. CASH AND INVESTMENTS

| ($ THOUSANDS) | 2006 | | 2005 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair value | Carrying Value | Estimated Fair value |
| Cash and money market securities | $ 316,384 | $ 316,384 | $ 198,266 | $ 198,266 |
| Bonds | | | | |
| Canadian | | | | |
| Federal | 2,256,701 | 2,255,388 | 2,188,511 | 2,175,509 |
| Bond repurchase | (787,132) | (787,132) | (657,632) | (657,632) |
| | 1,469,569 | 1,468,256 | 1,530,879 | 1,517,877 |
| Provincial | 1,035,704 | 1,049,320 | 823,422 | 837,284 |
| Bond repurchase | (58,373) | (58,373) | - | - |
| | 977,331 | 990,947 | 823,422 | 837,284 |
| Municipal | 40,653 | 42,769 | 196,588 | 209,687 |
| Corporate | 1,882,855 | 1,891,670 | 1,722,708 | 1,730,917 |
| | 1,923,508 | 1,934,439 | 1,919,296 | 1,940,604 |
| | 4,370,408 | 4,393,642 | 4,273,597 | 4,295,765 |
| Global | 412,891 | 408,400 | 392,095 | 356,475 |
| Bond repurchase | - | - | (26,746) | (26,746) |
| | 412,891 | 408,400 | 365,349 | 329,729 |
| Total bonds | 4,783,299 | 4,802,042 | 4,638,946 | 4,625,494 |
| Mortgages | 663,300 | 664,477 | 600,612 | 603,636 |
| Equities | | | | |
| Canadian | 924,455 | 1,228,306 | 768,324 | 1,128,230 |
| United States | 423,980 | 497,302 | 374,600 | 387,917 |
| Europe, Australia, Far East | 390,787 | 481,979 | 432,525 | 433,087 |
| Total equities | 1,739,222 | 2,207,587 | 1,575,449 | 1,949,234 |
| Real estate, net of provision | 185,774 | 276,865 | 153,805 | 189,651 |
| | $ 7,687,979 | $ 8,267,355 | $ 7,167,078 | $ 7,566,281 |

The estimated fair value of money market securities is cost. The estimated fair value for bonds and equities is based on quoted market values. The estimated fair value for mortgages is based upon the net present value of the payment stream using rates currently in effect. The estimated fair value of ICBC's net real estate investments is based on independent appraisals made during the year, when available, and, when not available, on discounted cash flows. In 2005, the estimated fair value of real estate was based on the most recent Government Assessment Authority values. The carrying value of the Surrey City Central real estate investment is net of a provision of $103.7 million for impairment in value that was determined to be other than temporary based on an independent appraisal in a prior year.

The notional amount of interest rate swaps is $400.7 million at December 31, 2006 (2005 – $90.5 million). The notional amount of basis swaps outstanding is $12.2 million (2005 – $12.2 million). Interest rate swaps have receiving interest rates of either the Canadian Overnight Repo Rate Average or an average of the three-month Canadian Dealer Offer Rate (CDOR) plus 37.5 basis points (2005 – 36.7 basis points), and an average pay interest rate of 4.34% (2005 – 5.65%). The basis swaps have an average pay floating rate of the London Inter-Bank Offer Rate plus 15 basis points and an average receiving floating interest rate of the CDOR plus 24 basis points. At December 31, 2006, all swap contracts had remaining terms under two years. The swaps had an estimated fair value of $4.3 million as at December 31, 2006 (2005 – $13.1 million). The fair value of interest rate swap contracts and foreign exchange swap contracts is determined by discounting expected future cash flows using current market interest and exchange rate instruments. The values of these swaps have been reflected in the estimated fair value of bonds. No forward foreign exchange contracts were outstanding as at December 31, 2006 (2005 – $26.7 million).

### a) Fixed income – interest rate risk

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Average Yield (%) | Duration (Years) | Average Yield (%) | Duration (Years) |
| Bonds | | | | |
| Canadian | | | | |
| Federal | 3.9 | 3.5 | 3.6 | 3.4 |
| Provincial | 4.4 | 6.9 | 4.4 | 7.6 |
| Municipal | 5.4 | 4.7 | 5.7 | 4.3 |
| Corporate | 4.4 | 3.6 | 4.3 | 3.5 |
| Global | 3.7 | 5.3 | 3.5 | 5.5 |
| Total bonds | 4.2 | 4.3 | 4.0 | 4.3 |
| Mortgages | 5.6 | 3.2 | 5.7 | 3.1 |
| Total bonds and mortgages | 4.3 | 4.2 | 4.1 | 4.2 |

### b) Fixed income – maturity profile

A significant business risk of the insurance industry is the ability to match the cash inflows of the investment portfolio with the cash requirements of the policy liabilities. The timing of most policy liability payments is not known, and may take considerable time to determine precisely, or may be paid in partial payments.

The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio.

($ THOUSANDS)

| | Within One Year | One Year to Five Years | After Five Years | Total |
|---|---|---|---|---|
| **2006** | | | | |
| Bonds | | | | |
| Canadian | | | | |
| Federal | $ 3,915 | $ 1,261,752 | $ 203,902 | $ 1,469,569 |
| Provincial | - | 480,615 | 496,716 | 977,331 |
| Municipal | - | 17,270 | 23,383 | 40,653 |
| Corporate | 42,900 | 1,557,057 | 282,898 | 1,882,855 |
| Global | 21,298 | 184,637 | 206,956 | 412,891 |
| Total bonds | 68,113 | 3,501,331 | 1,213,855 | 4,783,299 |
| Mortgages | 120,108 | 366,559 | 176,633 | 663,300 |
| | $ 188,221 | $ 3,867,890 | $ 1,390,488 | $ 5,446,599 |
| **2005** | | | | |
| Bonds | | | | |
| Canadian | | | | |
| Federal | $ - | $ 1,325,795 | $ 205,084 | $ 1,530,879 |
| Provincial | 7,728 | 369,902 | 445,792 | 823,422 |
| Municipal | - | 107,610 | 88,978 | 196,588 |
| Corporate | 32,118 | 1,460,771 | 229,819 | 1,722,708 |
| Global | 38,987 | 158,895 | 167,467 | 365,349 |
| Total bonds | 78,833 | 3,422,973 | 1,137,140 | 4,638,946 |
| Mortgages | 97,647 | 283,825 | 219,140 | 600,612 |
| | $ 176,480 | $ 3,706,798 | $ 1,356,280 | $ 5,239,558 |

## c) Investment income

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| Interest | | |
| Money market | $ 11,384 | $ 6,418 |
| Bonds | 220,685 | 200,135 |
| Mortgages | 34,108 | 32,787 |
| | 266,177 | 239,340 |
| Gains (losses) on the sale of investments | | |
| Equities | 205,668 | 236,578 |
| Bonds | (4,159) | 98,361 |
| Real estate | 2,154 | - |
| Foreign exchange | (9,784) | (26,627) |
| | 193,879 | 308,312 |
| Dividend and other income (expenses) | | |
| Equities | 52,281 | 38,325 |
| Real estate | 13,065 | 7,286 |
| Investment management fees | (4,590) | (10,518) |
| Other | (8,463) | (3,309) |
| | 52,293 | 31,784 |
| Total investment income | $ 512,349 | $ 579,436 |

## d) Securities lending

The Corporation participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commission on transactions as earned. At December 31, 2006 securities with an estimated fair value of $352.8 million (2005 – $88.3 million) have been loaned and securities with an estimated fair value of $370.3 million (2005 – $93.9 million) have been received as collateral.

## 4. PROPERTY AND EQUIPMENT

| ($ THOUSANDS) | 2006 | | 2005 | |
|---|---|---|---|---|
| | Cost | Net Book Value | Cost | Net Book Value |
| Land | $ 23,930 | $ 23,930 | $ 23,939 | $ 23,939 |
| Buildings | 141,364 | 32,151 | 140,212 | 32,132 |
| Furniture and equipment | 109,185 | 15,724 | 102,805 | 17,596 |
| Software | 22,879 | 7,070 | 22,018 | 8,562 |
| Leasehold improvements | 8,467 | 1,119 | 7,676 | 582 |
| | $ 305,825 | $ 79,994 | $ 296,650 | $ 82,811 |

Amortization expense for the year ended December 31, 2006 amounted to $15.0 million (2005 – $14.0 million).

## 5. PROVISION FOR UNPAID CLAIMS

The changes in the provision for unpaid claims recorded in the consolidated statement of financial position and their impact on claims incurred for the year are as follows:

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| **Unpaid claims net – beginning of year** | $ 5,031,283 | $ 4,642,193 |
| Change in estimates for losses occuring in prior years | | |
| Prior years' claims adjustments | 89,918 | 38,782 |
| Increase in claims incurred in prior years due to a reduction in the amount of discount | 9,125 | 41,880 |
| | 99,043 | 80,662 |
| Provision for claims occuring in the current year | 2,544,396 | 2,444,515 |
| Net claims incurred | 2,643,439 | 2,525,177 |
| Less: | | |
| Payments on claims incurred in the current year | 978,560 | 938,534 |
| Payments on claims incurred in prior years | 1,415,110 | 1,314,033 |
| Recoveries on claims | (109,265) | (116,480) |
| | 2,284,405 | 2,136,087 |
| **Unpaid claims net – end of year** | 5,390,317 | 5,031,283 |
| Recoverable from reinsurers | 29,416 | 21,825 |
| **Unpaid claims gross – end of year** | $ 5,419,733 | $ 5,053,108 |

The provision for unpaid claims at December 31, 2006 includes an estimate of $126 million (2005 – $84 million) resulting from increases to the BC Supreme Court tariff of costs used to compute legal costs for indemnification of successful litigants effective January 1, 2007.

The Corporation discounts its provision for unpaid claims at an investment rate of return of 5.0% (2005 – 4.7%). The Corporation determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The following table shows the effects of discounting on the provision for unpaid claims:

| ($ THOUSANDS) | Undiscounted | Effect of Present Value | PFADs | Discounted |
|---|---|---|---|---|
| **2006** | | | | |
| Provision for unpaid claims | $ 5,448,305 | $ (620,546) | $ 562,558 | $ 5,390,317 |
| Amount recoverable from reinsurers | 34,270 | (3,306) | (1,548) | 29,416 |
| | $ 5,482,575 | $ (623,852) | $ 561,010 | $ 5,419,733 |
| **2005** | | | | |
| Provision for unpaid claims | $ 5,052,782 | $ (545,298) | $ 523,799 | $ 5,031,283 |
| Amount recoverable from reinsurers | 25,163 | (2,189) | (1,149) | 21,825 |
| | $ 5,077,945 | $ (547,487) | $ 522,650 | $ 5,053,108 |

## 6. REINSURANCE

The Corporation maintains casualty and catastrophe reinsurance to protect against significant losses.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2006 with the following terms:

a) up to $275 million in excess of $25 million annually for catastrophic occurrences;
b) up to $20 million in excess of $5 million for individual casualty loss occurrences.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2005 with the following terms:

a) up to $275 million in excess of $25 million annually for catastrophic occurrences;
b) up to $25 million in excess of $5 million for individual casualty loss occurrences.

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

## 7. PREMIUMS AND OTHER RECEIVABLES

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| Premium receivables | $ 872,453 | $ 640,045 |
| Other receivables | 17,691 | 21,222 |
| | $ 890,144 | $ 661,267 |

The Corporation grants credit to its customers in the normal course of business. Credit assessments are performed on a regular basis and the financial statements take into account an allowance for bad debts.

## 8. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Corporation sponsors a registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). It also sponsors two supplemental pension arrangements for certain employees.

The Corporation also contributes to two other pension plans for which it is not the sponsor. Current and former employees of the Corporation who are or were members of COPE Local 378 are members of the COPE 378 / ICBC Pension Plan (the COPE Plan). The COPE Plan is a jointly trusteed plan. Trustees of the plan are appointed by each of the Corporation and COPE Local 378. In addition, certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of the BC Public Service Pension Plan.

The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans. The Corporation has no role in the governance of the COPE Plan or the BC Public Service Pension Plan.

The Corporation pays Medical Services Plan and life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its retirees. Benefit entitlements differ for management and confidential, and bargaining unit staff.

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefit plans were $23.6 million (2005 – $25.9 million).

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations of the pension plans for funding purposes are prepared on a triennial basis. The Management and Confidential Plan had an actuarial valuation as of December 31, 2004 which was extrapolated to December 31, 2006. The COPE Plan had an actuarial valuation as of December 31, 2005 which was extrapolated to December 31, 2006.

Information regarding the pension plans and post-retirement benefits is as follows:

| | Pension Plans | | Post-Retirement Benefits | |
|---|---|---|---|---|
| ($ THOUSANDS) | 2006 | 2005 | 2006 | 2005 |
| **Plan assets** | | | | |
| Fair value at beginning of year | $ 859,544 | $ 743,381 | $ - | $ - |
| Actual return on plan assets | 106,884 | 97,011 | - | - |
| Employer contributions | 20,671 | 23,286 | 1,900 | 1,667 |
| Employees' contributions | 16,511 | 15,964 | - | - |
| Net transfers | 9 | 843 | - | - |
| Benefits paid | (22,847) | (20,941) | (1,900) | (1,667) |
| Fair value at end of year | 980,772 | 859,544 | - | - |
| **Accrued benefit obligation** | | | | |
| Balance at beginning of year | 864,974 | 733,299 | 126,830 | 97,592 |
| Current service cost and employees' contributions | 45,854 | 40,831 | 6,690 | 4,847 |
| Net transfers | 9 | 843 | - | - |
| Interest cost | 44,971 | 44,698 | 6,629 | 5,944 |
| Actuarial (gains) losses | (43,463) | 66,244 | (5,988) | 20,114 |
| Benefits paid | (22,847) | (20,941) | (1,900) | (1,667) |
| Balance at end of year | 889,498 | 864,974 | 132,261 | 126,830 |
| **Funded status – plan surplus (deficit)** | 91,274 | (5,430) | (132,261) | (126,830) |
| Unamortized net actuarial losses | 32,650 | 129,241 | 33,494 | 41,918 |
| Unamortized plan adjustments | - | - | (1,608) | (1,809) |
| Unamortized transitional asset | (65,879) | (74,864) | - | - |
| **Accrued benefit asset (liability)** | $ 58,045 | $ 48,947 | $ (100,375) | $ (86,721) |

The pension plans' assets consist of:

| | Percentage of Plan Assets | |
|---|---|---|
| | 2006 | 2005 |
| Cash and accrued interest | 2% | 2% |
| Equities | | |
| Canadian | 25% | 27% |
| Foreign | 24% | 22% |
| Fixed Income | | |
| Government | 29% | 29% |
| Corporate | 6% | 6% |
| Pooled fixed income funds | 4% | 4% |
| Mortgages | 5% | 5% |
| Real estate | 5% | 5% |
| | 100% | 100% |

The following amounts are included in the accrued benefit obligation in respect of plans that are not funded:

| | Pension Plans | | Post-Retirement Benefits | |
|---|---|---|---|---|
| ($ THOUSANDS) | 2006 | 2005 | 2006 | 2005 |
| Accrued benefit obligation and plan deficit | $ 7,764 | $ 7,699 | $ 132,261 | $ 126,830 |

The Corporation's net benefit plan expense for the pension plans and post-retirement benefits is as follows:

| | Pension Plans | | Post-Retirement Benefits | |
|---|---|---|---|---|
| ($ THOUSANDS) | 2006 | 2005 | 2006 | 2005 |
| Current service cost | $ 29,343[1] | $ 24,867[1] | $ 6,690 | $ 4,847 |
| Interest cost | 44,971 | 44,698 | 6,629 | 5,944 |
| Expected return on plan assets | (56,979) | (52,600) | - | - |
| Amortization of transitional asset | (8,985) | (8,985) | - | - |
| Plan adjustments | - | - | (201) | (201) |
| Amortization of net actuarial loss | 3,223 | 2,602 | 2,436 | 1,095 |
| Net expense | $ 11,573 | $ 10,582 | $ 15,554 | $ 11,685 |

[1] Net of employees' contributions of $16,511 (2005 – $15,964)

The Corporation contributed $1.0 million in 2006 (2005 – $0.9 million) to the BC Public Service Pension Plan.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

| | Pension Plans | | Post-Retirement Benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Discount rate | 5.20% | 5.00% | 5.20% | 5.00% |
| Expected long-term rate of return on plan assets | 6.6% | 6.6% | n/a | n/a |
| Rate of compensation increase | 3.8% | 3.8% | 3.8% | 3.8% |
| Inflation rate | 2.5% | 2.5% | 2.5% | 2.5% |
| Medical Services Plan trend rate | n/a | n/a | 0.0% | 0.0% |

In 2006 the extended healthcare trend rate is assumed to be 11.4% in the first year, decreasing linearly over 9 years to 6.0% per year thereafter. In 2005 the extended healthcare trend rate was assumed to be 12.0% in the first year, decreasing linearly over 10 years to 6.0% per year thereafter.

## 9. OPERATING COSTS

The Corporation's activities include insurance and non-insurance operations as described in note 1. Details of the expenses are as follows:

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| **Operating costs – insurance** | | |
| Administrative and other expenses | $ 86,785 | $ 94,129 |
| Insurance services | 46,031 | 42,432 |
| | $ 132,816 | $ 136,561 |
| **Operating costs – non-insurance** | | |
| Administrative and other expenses | $ 31,092 | $ 29,756 |
| Payment to the Province for Compliance Operations | 6,240 | 24,827 |
| Driver services | 40,796 | 36,665 |
| | $ 78,128 | $ 91,248 |

## 10. DEFERRED PREMIUM ACQUISITION COSTS AND PREPAID EXPENSES

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| Deferred premium acquisition costs | $ 138,000 | $ 38,600 |
| Prepaid expenses | 7,920 | 7,333 |
| | $ 145,920 | $ 45,933 |

As at December 31, 2006 there were premium acquisition costs of $187.3 million (2005 – $175.4 million) related to future periods. An actuarial valuation determined that $138.0 million (2005 – $38.6 million) of this amount is allowable for deferral. The allowable amount for deferral is comprised as follows:

| ($ THOUSANDS) | 2006 | 2005 |
|---|---|---|
| Optional | $ 122,300 | $ 115,400 |
| Basic | 15,700 | (76,800) |
| | $ 138,000 | $ 38,600 |

The commission and premium tax expenses reflected in the consolidated statement of operations are as follows:

| ($ THOUSANDS) | Commissions | Premium Taxes | Total |
|---|---|---|---|
| **2006** | | | |
| Amount payable | $ 261,743 | $ 148,519 | $ 410,262 |
| Amortization of prior year deferred premium acquisition costs | 24,100 | 14,500 | 38,600 |
| Deferred premium acquisition costs | (85,608) | (52,392) | (138,000) |
| Premium taxes and commission expense | $ 200,235 | $ 110,627 | $ 310,862 |
| Represented as: | | | |
| Insurance | $ 181,544 | $ 110,627 | $ 292,171 |
| Non-insurance | 18,691 | - | 18,691 |
| | $ 200,235 | $ 110,627 | $ 310,862 |
| **2005** | | | |
| Amount payable | $ 250,734 | $ 137,941 | $ 388,675 |
| Amortization of prior year deferred premium acquisition costs | 93,237 | 52,863 | 146,100 |
| Deferred premium acquisition costs | (24,100) | (14,500) | (38,600) |
| Premium taxes and commission expense | $ 319,871 | $ 176,304 | $ 496,175 |
| Represented as: | | | |
| Insurance | $ 302,172 | $ 176,304 | $ 478,476 |
| Non-insurance | 17,699 | - | 17,699 |
| | $ 319,871 | $ 176,304 | $ 496,175 |

## 11. RELATED PARTY TRANSACTIONS

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes on privately sold used vehicles and motor vehicle related debts. The Corporation is the sole provider of Basic automobile insurance (note 1) in the Province and, therefore, insures, at market rates, an indeterminate number of vehicles owned or leased by the government of the Province and its controlled entities. As a consequence of these relationships, the Corporation has, at any time, amounts owing to or from various government departments or ministries in the ordinary course of business.

The Corporation is responsible for collecting all vehicle-related income for acquiring and distributing licence plates and decals including permit and other fees under the *Motor Vehicle Act* and fines under the *Offense Act* and this is remitted in full to the Province. Income from the issuance of drivers and other licences and permits, and from fines is recognized on an accrual basis. The costs associated with the licensing and compliance activities conducted on behalf of the Province are borne by the Corporation and are included in the consolidated statement of operations as operating costs, non-insurance (note 9).

Other related party transactions have been disclosed elsewhere in the notes to the consolidated financial statements.

## 12. FAIR VALUE

Fair value represents a year end estimate that may not be relevant in predicting the Corporation's future earnings or cash flows. The fair value of financial instruments, other than investments (note 3), amount recoverable from reinsurers (note 5), provision for unpaid claims (note 5), post-retirement benefits (note 8) and structured settlements (note 13a) approximate their carrying value.

## 13. CONTINGENT LIABILITIES AND COMMITMENTS

a) A number of more serious injury claims are settled through the use of structured settlements which require the Corporation to provide the claimant with periodic payments, usually for a lifetime. The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation, the Corporation is responsible for the annuity payments. At present, four federally licensed life insurance companies are approved for use by the Corporation. The list of approved insurance companies is determined by an ongoing analysis of total assets, credit rating reports, and past service history. The present value of these structured settlements at December 31, 2006 is approximately $907 million (2005 – $842 million). To date, the Corporation has not experienced any losses resulting from these arrangements, nor are any anticipated.

b) The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years are as follows:

| ($ THOUSANDS) | |
|---|---|
| 2007 | $ 12,191 |
| 2008 | 10,598 |
| 2009 | 7,762 |
| 2010 | 4,949 |
| 2011 | 2,699 |
| | $ 38,199 |

## 14. RATE REGULATION

As discussed in note 1, the Corporation is subject to regulation by BCUC. BCUC has jurisdiction over the Corporation's rates and service for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business. In addition, BCUC sets rates for Basic insurance that allow it to achieve the legislated capital targets and is responsible for directing ICBC to achieve legislated targets for total Corporation and Optional insurance.

For the regulation of the Corporation's Basic insurance rates, BCUC is required to ensure that the rates are just, reasonable, not unduly discriminatory and not unduly preferential. BCUC is required to fix rates on the basis of accepted actuarial practice, to pay for certain specified costs, to ensure the Corporation maintains the required capital, to ensure rates are not based on age, gender or marital status, and to ensure increases or decreases in rates are phased in a stable and predictable manner.

BCUC requires the Corporation to follow the financial allocation methodology it has approved with respect to allocating costs between Basic and Optional insurance business, and non-insurance business.

It also requires the Corporation to file actuarial certificates attesting to the fact that capital available for Basic insurance, Optional insurance and the total Corporation meets legislated targets.

BCUC initiates regulatory processes on its own initiative or upon application by the Corporation. It uses oral hearing, written hearing, or negotiated settlement processes to review applications and subsequently issue legally binding decisions.

The Corporation is required to incur a portion of BCUC's general operating expenses as well as its costs associated with each ICBC proceeding. BCUC can also order the Corporation to reimburse other proceeding participants for specified costs such as legal and expert witness fees.

### Allocation of Basic and Optional amounts

The Corporation operates its business using an integrated business model. Although the majority of premium revenues are specifically identifiable as Basic or Optional (note 1), certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation has been used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality and any BCUC directives. BCUC directives have been applied on a prospective basis.

Included in Basic are non-insurance costs, as the Corporation is required to provide non-insurance services such as driver and vehicle licensing, vehicle registration and funding for Compliance Operations.

| ($ THOUSANDS) | Basic Coverage 2006 | Basic Coverage 2005 | Optional Coverage 2006 | Optional Coverage 2005 | Total 2006 | Total 2005 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Premiums written | $ 1,896,685 | $ 1,761,668 | $ 1,478,742 | $ 1,385,604 | $ 3,375,427 | $ 3,147,272 |
| Premiums earned | $ 1,824,477 | $ 1,736,760 | $ 1,432,379 | $ 1,380,652 | $ 3,256,856 | $ 3,117,412 |
| Service fees | 25,652 | 20,126 | 21,502 | 17,353 | 47,154 | 37,479 |
| **Total earned revenues** | 1,850,129 | 1,756,886 | 1,453,881 | 1,398,005 | 3,304,010 | 3,154,891 |
| **Claims and operating costs** | | | | | | |
| Net claims incurred during the year (note 5) | 1,653,550 | 1,624,863 | 890,846 | 819,652 | 2,544,396 | 2,444,515 |
| Prior years' claims adjustment (note 5) | 594 | 126,428 | 98,449 | (45,766) | 99,043 | 80,662 |
| Claims services, road safety and loss management services | 197,608 | 189,050 | 103,406 | 98,192 | 301,014 | 287,242 |
| | 1,851,752 | 1,940,341 | 1,092,701 | 872,078 | 2,944,453 | 2,812,419 |
| Operating costs – insurance (note 9) | 66,046 | 69,347 | 66,770 | 67,214 | 132,816 | 136,561 |
| Premium taxes and commissions (note 10) | 40,693 | 225,857 | 251,478 | 252,619 | 292,171 | 478,476 |
| | 1,958,491 | 2,235,545 | 1,410,949 | 1,191,911 | 3,369,440 | 3,427,456 |
| **Underwriting (loss) income** | (108,362) | (478,659) | 42,932 | 206,094 | (65,430) | (272,565) |
| Investment income (note 3c) | 342,864 | 378,740 | 169,485 | 200,696 | 512,349 | 579,436 |
| **Insurance operations income (loss)** | 234,502 | (99,919) | 212,417 | 406,790 | 446,919 | 306,871 |
| Non-insurance costs | 96,819 | 108,947 | - | - | 96,819 | 108,947 |
| **Net income (loss)** | $ 137,683 | $ (208,866) | $ 212,417 | $ 406,790 | $ 350,100 | $ 197,924 |
| **Retained earnings** | | | | | | |
| Beginning of year | $ 452,564 | $ 131,430 | $ 704,584 | $ 827,794 | $ 1,157,148 | $ 959,224 |
| Transfer of retained earnings | 100,000 | 530,000 | (100,000) | (530,000) | - | - |
| End of year | $ 690,247 | $ 452,564 | $ 817,001 | $ 704,584 | $ 1,507,248 | $ 1,157,148 |

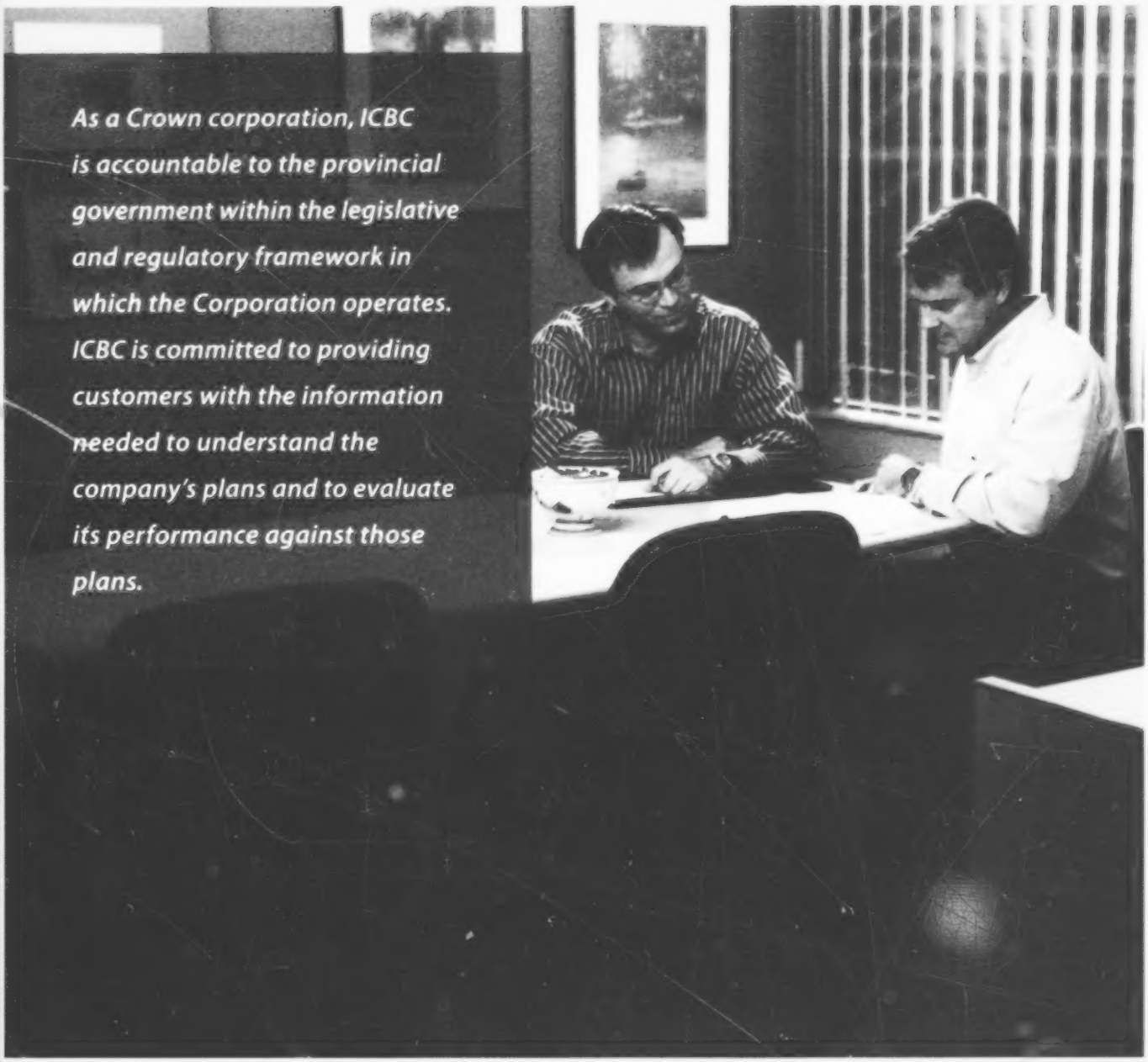
A government directive in February 2007, effective for December 31, 2006, directed the Corporation to transfer $100 million of its Optional insurance retained earnings to its Basic insurance business. A government directive in October 2005 directed the Corporation to transfer $530 million of its Optional insurance retained earnings to its Basic insurance business. The Corporation has complied with both government directives.

| ($ THOUSANDS) | Basic Coverage 2006 | Basic Coverage 2005 | Optional Coverage 2006 | Optional Coverage 2005 | Total 2006 | Total 2005 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Unearned premiums | $ 901,646 | $ 829,438 | $ 714,101 | $ 667,738 | $ 1,615,747 | $ 1,497,176 |
| Provision for unpaid claims | $ 4,128,278 | $ 3,888,600 | $ 1,291,455 | $ 1,164,508 | $ 5,419,733 | $ 5,053,108 |

## 15. ROLE OF THE ACTUARY AND AUDITORS

The actuary's responsibility is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with accepted actuarial practice and regulatory requirements, and report thereon. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the Board of Directors. Their responsibility is to conduct an independent and objective audit of the consolidated financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out their audit, the auditors also make use of the work of the actuary when considering the provision for claims and claims expenses, unearned premiums, and deferred premium acquisition costs. The auditors' report outlines the scope of their audit and their opinion.



*As a Crown corporation, ICBC is accountable to the provincial government within the legislative and regulatory framework in which the Corporation operates. ICBC is committed to providing customers with the information needed to understand the company's plans and to evaluate its performance against those plans.*

# Corporate Governance

Governance defines the roles, relationships, powers and accountability among shareholders, the Board of Directors and management. Governance of a Crown corporation also requires that responsibility be clearly articulated for meeting public policy objectives.

## ICBC's Relationship to Government

At the highest level, governance of a Crown corporation is defined through legislation applicable to Crown corporations, such as the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, the *Financial Information Act*, and the *Freedom of Information* and *Protection of Privacy Act*. Under this legislation, ICBC is accountable for making public its strategic plan (i.e. Service Plan) and performance against the plan (i.e. Annual Report), as well as providing financial and other information as the legislation requires.

Individual Crown entities are governed by legislation specific to each Crown corporation. In the provision of Basic and Optional insurance and non-insurance services provided on behalf of the provincial government, the specific legislation to which ICBC must adhere includes the *Insurance Corporation Act*, the *Insurance (Motor Vehicle) Act*, the *Motor Vehicle Act*, the *Motor Vehicle (All Terrain) Act*, and the *Commercial Transport Act*. In addition, the *Insurance Corporation Amendment Act* was enacted in 2003 and established the British Columbia Utilities Commission (BCUC) as the independent regulator for Basic insurance rates. Non-insurance services provided on behalf of the provincial government are set out in a Service Agreement between ICBC and the Province.

Individual Crown entities are also governed by the Shareholder's Letter of Expectations established between each Crown corporation and the Minister responsible. The Minister of Public Safety and Solicitor General is the Minister responsible for ICBC.

## ICBC Board Governance

The Board of Directors guides the Corporation in fulfilling its mandate and sets direction for ICBC. The Board and management approve the corporate vision, mission, values and goals that guide the Corporation. The Board sets goals for corporate performance and these goals and associated objectives form the basis upon which accountability and performance is evaluated. Performance against these goals and objectives is reviewed and revisions made when necessary.

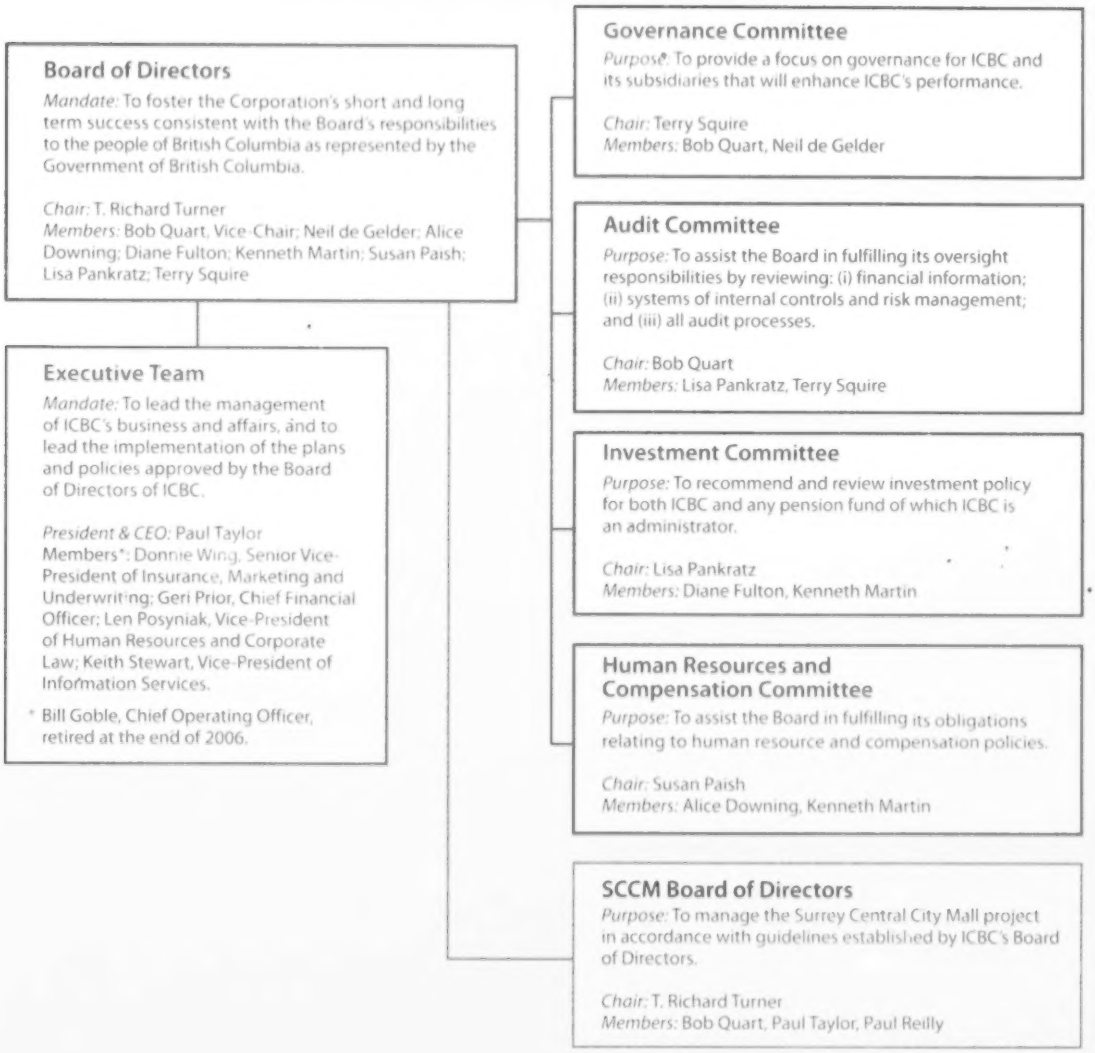
As a Crown corporation, ICBC's Board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of nine members with a broad range of expertise and experience. The individual members each play an important role and also contribute as members of committees of the Board. The chart on page 77 shows ICBC's Board of Directors, and its committees, members and mandates.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee. ICBC's Board Governance Manual and policies for making information publicly available fully comply with the provincial government's "Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations." Additional information on Board members and Board policies is available on ICBC's website, www.icbc.com.

ICBC's Board of Directors has adopted the guiding principles included in the provincial government's "Governance Framework for Crown Corporations: Best Practice Governance and Disclosure Guidelines" (available on-line at www.fin.gov.bc.ca/oop/brdo/corporateguidelines.pdf). These principles provide an understanding of the roles and responsibilities for all parties that are part of the Crown corporation governance environment:

- Stewardship, leadership and effective functioning of the Board
- Clarity of roles and responsibilities
- Openness, trust and transparency
- Service and corporate citizenship
- Accountability and performance
- Value, innovation and continuous improvement

# Board Governance Structure


Board of Directors
Mandate: To foster the Corporation's short and long term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.
Chair: T. Richard Turner
Members: Bob Quart, Vice-Chair; Neil de Gelder; Alice Downing; Diane Fulton; Kenneth Martin; Susan Paish; Lisa Pankratz; Terry Squire
Executive Team
Mandate: To lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors of ICBC.
President & CEO: Paul Taylor
Members*: Donnie Wing, Senior Vice-President of Insurance, Marketing and Underwriting; Geri Prior, Chief Financial Officer; Len Posyniak, Vice-President of Human Resources and Corporate Law; Keith Stewart, Vice-President of Information Services.
* Bill Goble, Chief Operating Officer, retired at the end of 2006.
Governance Committee
Purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.
Chair: Terry Squire
Members: Bob Quart, Neil de Gelder
Audit Committee
Purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.
Chair: Bob Quart
Members: Lisa Pankratz, Terry Squire
Investment Committee
Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.
Chair: Lisa Pankratz
Members: Diane Fulton, Kenneth Martin
Human Resources and Compensation Committee
Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.
Chair: Susan Paish
Members: Alice Downing, Kenneth Martin
SCCM Board of Directors
Purpose: To manage the Surrey Central City Mall project in accordance with guidelines established by ICBC's Board of Directors.
Chair: T. Richard Turner
Members: Bob Quart, Paul Taylor, Paul Reilly

## Operating Subsidiaries

Surrey City Central Mall Ltd. (SCCM) is the only active operating subsidiary of ICBC. All other holdings are nominee companies with no operations in their own right, and all financial information is included in ICBC's financial statements. SCCM is governed by a four-person Board of Directors, comprised of two members of ICBC's Board of Directors, ICBC's President and Chief Executive Officer; and SCCM's President. SCCM's Board meets quarterly with its senior management and SCCM provides ICBC with monthly financial and performance information.

SCCM actively manages the Central City project in Surrey, a 25 storey class A office tower and galleria that was built over top of the existing retail development known as Central City Mall (formerly Surrey Place Mall) and was completed in 2003. The net leasable area of the new development is approximately 867,000 square feet of which SCCM owns 562,000 square feet; and the existing retail mall is approximately 646,000 square feet, of which SCCM owns approximately 490,000 square feet.

The sophisticated nature of the facility's design and amenities of the Central City development has lent itself to attracting tenants with specific space and technology requirements. For example, in 2004, Simon Fraser University purchased net leasable space of approximately 305,000 square feet in the Central City development in order to create a new Surrey campus.

The financial results for SCCM are included in ICBC's financial statements and operations as shown in this annual report. In 2005, SCCM reported net income of $2.1 million based on revenues of $14.7 million and expenses of $12.6 million. In 2006, SCCM reported a net operating profit of $5.9 million based on revenues of $21.2 million and expenses of $15.3 million, as well as a gain on real estate of $2.2 million.

SCCM markets Central City's offices as an international quality leasing opportunity. Its 2006 capital budget of $13 million supported new construction of retail development and other tenant improvements and allowances. These expenditures focused on realizing maximum value from the asset, with the goal of leasing additional space, particularly retail space, and generating more revenue overall. These are both key measures of performance for the company.

Currently, with the tower development fully occupied and the strong market, SCCM has started a process to market the property for sale. Completion of this process is anticipated in 2007.

# ICBC Board of Directors and Executives

FRONT ROW FROM LEFT:

**Geri Prior**
*Chief Financial Officer*

**Kenneth Martin**
*Board Member*

**Paul Taylor**
*President & CEO*

**T. Richard Turner**
*Board Chair*

**Neil de Gelder**
*Board Member*

**Donnie Wing**
*Senior Vice-President, Insurance, Marketing and Underwriting*

BACK ROW FROM LEFT:

**Alice Downing**
*Board Member*

**Paul Reilly**
*President of Surrey Central City Mall Ltd.*

**Diane Fulton**
*Board Member*

**Keith Stewart**
*Vice-President, Information Services*

**Bob Quart**
*Board Vice-Chair*

**Len Posyniak**
*Vice-President, Human Resources and Corporate Law*

**Susan Paish**
*Board Member*

**Terry Squire**
*Board Member*

**Lisa Pankratz**
*Board Member*

# ICBC Points of Service

## Lower Mainland

### *Claim Centres*
Abbotsford*
Burnaby*
Chilliwack
Coquitlam*,
Blue Mountain St.
Coquitlam,
Centralized Estimating Facility
Langley*
Maple Ridge
New Westminster*
North Vancouver*
Richmond*
Sechelt, Resident Office
Squamish
Surrey, Guildford*
Surrey, Newton*
Vancouver, 5th and Cambie*
Vancouver, Kingsway*

### *Driver Services Centres*
Abbotsford
Burnaby*
Burnaby, Metrotown (Express)
Chilliwack
Coquitlam
Coquitlam (Express)
Langley
North Vancouver
Richmond*
Richmond (Express)
Surrey*
Surrey, Cloverdale (Express)
Surrey, Guildford (Express)
Vancouver East
Vancouver, Point Grey
Vancouver, Robson Square

### *Government Agents*
Chilliwack
Maple Ridge

### *Appointed Agents*
Agassiz
Gibsons
Hope
Pemberton
Sechelt
Squamish
Whistler

## Southern Interior

### *Claim Centres*
Cranbrook
Kamloops
Kelowna*
Nelson
Penticton
Salmon Arm
Trail
Vernon

### *Driver Services Centres*
Kamloops
Kelowna*

### *Government Agents*
Cranbrook
Kamloops
Nelson
Penticton
Revelstoke
Salmon Arm
Trail
Vernon

### *Appointed Agents*
Armstrong
Ashcroft
Barriere
Castlegar
Chase
Clearwater
Clinton
Creston
Elkford
Enderby
Fernie
Golden
Grand Forks
Greenwood
Invermere
Kaslo
Keremeos
Kimberley
Lillooet
Lumby
Merritt
Midway
Nakusp
New Denver
Oliver
Osoyoos
Princeton
Salmo
Sicamous
Slocan Park
Sparwood
Summerland

## Vancouver Island

### *Claim Centres*
Campbell River
Courtenay
Duncan
Nanaimo
Port Alberni
Powell River, Resident Office
Victoria*

### *Driver Services Centres*
Nanaimo
Victoria, McKenzie Ave*
Victoria, Wharf Street (Express)

### *Government Agents*
Campbell River
Courtenay
Duncan
Nanaimo
Port Alberni

### *Appointed Agents*
Alert Bay
Ganges
Gold River
Ladysmith
Lake Cowichan
Mill Bay
Parksville
Port Hardy
Port McNeill
Powell River
Qualicum Beach
Sidney
Sooke
Tofino
Ucluelet

## North/Central

### *Claim Centres*
Dawson Creek
Fort St. John
Prince George
Prince Rupert
Quesnel
Smithers
Terrace
Williams Lake

### *Driver Services Centres*
Prince George

### *Government Agents*
Atlin
Chetwynd
Dawson Creek
Dease Lake
Fort Nelson
Fort St. John
Prince George
Prince Rupert
Queen Charlotte City
Quesnel
Smithers
Stewart
Terrace
Williams Lake

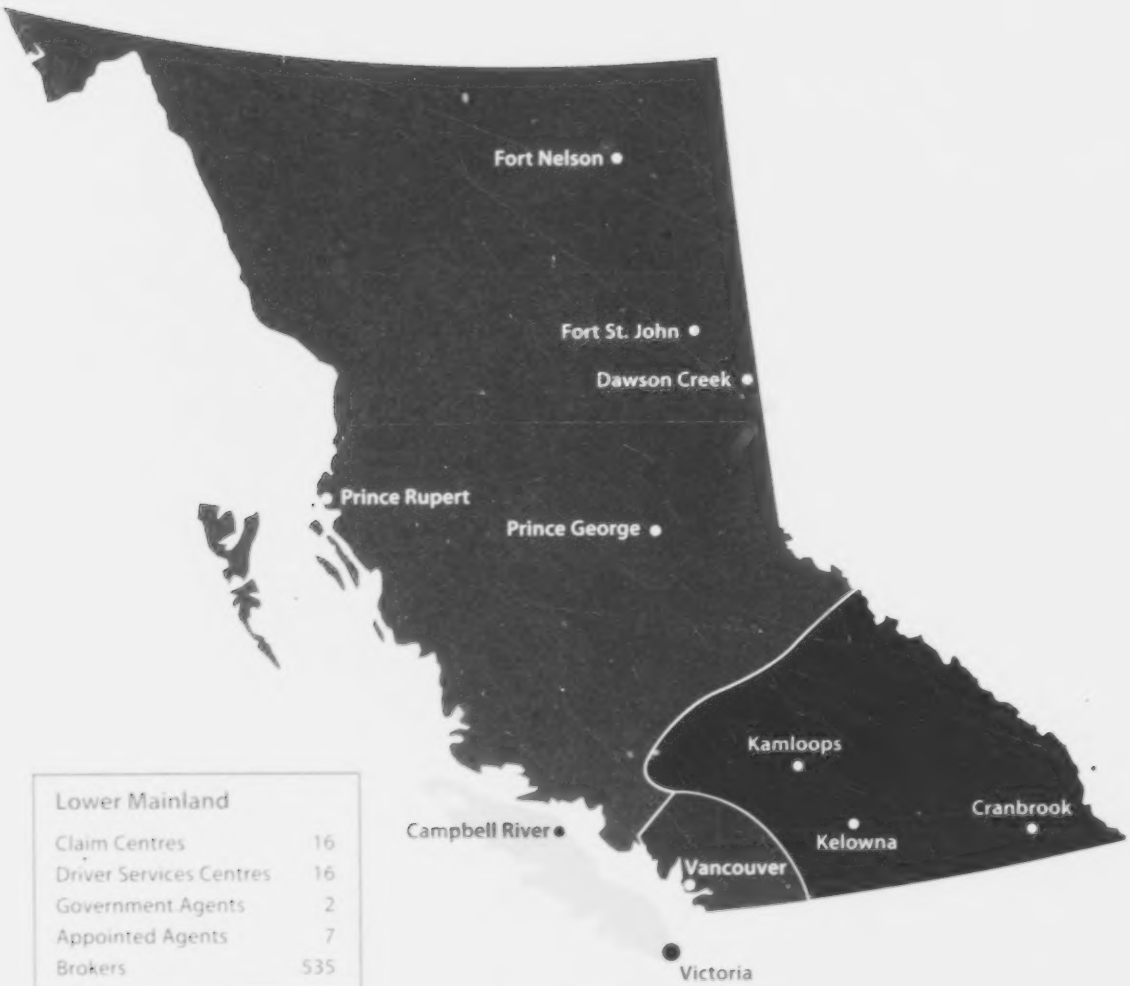
### *Appointed Agents*
Bella Coola
Burns Lake
Fort St. James
Fraser Lake
Houston
Hudson's Hope
Kitimat
Mackenzie
Masset
McBride
New Hazelton
100 Mile House
Tumbler Ridge
Valemount
Vanderhoof

## Other Points of Service

***ICBC on-line Claim Report:***
www.icbc.com/claims-repairs

***24-hour Dial-a-claim:***
604-520-8222 (Lower Mainland)

1-800-910-4222
(outside Lower Mainland
and out of province)




| Lower Mainland | |
|---|---|
| Claim Centres | 16 |
| Driver Services Centres | 16 |
| Government Agents | 2 |
| Appointed Agents | 7 |
| Brokers | 535 |

| Southern Interior | |
|---|---|
| Claim Centres | 8 |
| Driver Services Centres | 2 |
| Government Agents | 8 |
| Appointed Agents | 32 |
| Brokers | 152 |

| Vancouver Island | |
|---|---|
| Claim Centres | 7 |
| Driver Services Centres | 3 |
| Government Agents | 5 |
| Appointed Agents | 15 |
| Brokers | 143 |

| North/Central | |
|---|---|
| Claim Centres | 8 |
| Driver Services Centres | 1 |
| Government Agents | 14 |
| Appointed Agents | 15 |
| Brokers | 66 |

**HEAD OFFICE**

151 W. Esplanade
North Vancouver, BC
V7M 3H9

604-661-2800
1-800-663-3051

**ADDITIONAL INFORMATION**

Additional information about ICBC is available at **www.icbc.com**

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